

## Note 1. Significant Accounting Policies

**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). Such accounting principles differ from statutory accounting principles (see Note 15). Intercompany transactions have been eliminated. In connection with our preparation of the consolidated financial statements, we evaluated events that occurred subsequent to December 31, 2009, for recognition or disclosure in our financial statements and notes to our financial statements.

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 2 for further discussion.

**Description of Business:** We are the largest provider of group and individual disability 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 market our products primarily to employers interested in providing benefits to their employees.

We have three major business segments: Unum US, Unum UK, and Colonial Life. Our other reporting segments are the Individual Disability—Closed Block segment and the Corporate and Other segment. See Note 13 for further discussion of our operating segments.

**Use of Estimates:** The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Many factors influence the assumptions upon which reserves for policy and contract benefits are based, including historical trends in our experience and expected deviations from historical experience. Considerable judgment is required to interpret actual historical experience and to assess the future factors that are likely to influence the ultimate cost of settling existing claims. Given that insurance products contain inherent risks and uncertainties, the ultimate liability may be more or less than such estimates indicate.

**Fixed Maturity Securities:** Fixed maturity securities include bonds and redeemable preferred stocks. Fixed maturity securities not bought and held for the purpose of selling in the near term but for which we do not have the positive intent and ability to hold to maturity are classified as available-for-sale and reported at fair value. Changes in the fair value of available-for-sale fixed maturity securities, except for amounts related to other-than-temporary impairment losses recognized in earnings, are reported as a component of other comprehensive income. These amounts are net of income tax and valuation adjustments to deferred acquisition costs and reserves for future policy and contract benefits which would have been recorded had the related unrealized gain or loss on these securities been realized.

Interest income is recorded as part of net investment income when earned, using an effective yield method giving effect to amortization of premium and accretion of discount. Included within fixed maturity securities are mortgage-backed and asset-backed securities. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment income. For fixed maturity securities on which collection of investment income is uncertain, we discontinue the accrual of investment income and recognize investment income when interest and dividends are received. Payment terms specified for fixed maturity securities may include a prepayment penalty for unscheduled payoff of the investment. Prepayment penalties are recognized as investment income when received.

In determining when a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we evaluate available information, both positive and negative, in reaching our conclusions. Although all available and applicable factors are considered in our analysis, our expectation of recovering the entire amortized cost basis of the security, whether we intend to sell the security, whether we more likely than not will be required to sell the security before recovery of its amortized cost, and whether the security is current on principal and interest payments are the most critical factors in determining whether impairments are other than temporary. The significance

of the decline in value and the length of time during which there has been a significant decline are also important factors, but we generally do not record an impairment loss based solely on these two factors, since often other more relevant factors will impact our evaluation of a security. See also Note 3.

**Mortgage Loans:** Mortgage loans are generally carried at amortized cost less an allowance for probable losses. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. For mortgage loans on which collection of investment income is uncertain, we discontinue the accrual of investment income and recognize investment income when interest is received. Payment terms specified for mortgage loans may include a prepayment penalty for unscheduled payoff of the investment. Prepayment penalties are recognized as investment income when received. We use a comprehensive rating system to evaluate the investment and credit risk of our mortgage loans and to identify specific properties for inspection and reevaluation. Mortgage loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We establish an allowance for probable losses on mortgage loans based on a review of individual loans and the overall loan portfolio, considering the value of the underlying collateral.

**Policy Loans:** Policy loans are presented at unpaid balances directly related to policyholders. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Included in policy loans are \$2,675.7 million and \$2,555.6 million of policy loans ceded to reinsurers at December 31, 2009 and 2008, respectively.

**Other Long-term Investments:** Other long-term investments are comprised primarily of freestanding derivatives with a net positive fair value and private equity fund limited partnerships. Freestanding derivatives are more fully described in the derivatives accounting policy which follows. Private equity fund limited partnerships are accounted for using the equity or cost method, depending on the level of ownership and the degree of influence over partnership operating and financial policies.

**Short-term Investments:** Short-term investments are carried at cost. Short-term investments include investments maturing within one year, such as corporate commercial paper and U.S. Treasury bills, bank term deposits, and other cash accounts and cash equivalents earning interest.

**Cash and Bank Deposits:** Cash and bank deposits include cash on hand and non-interest bearing cash and deposit accounts.

**Derivative Financial Instruments:** Derivative financial instruments (including certain derivative instruments embedded in other contracts) are recognized as either assets or liabilities in our consolidated balance sheets and are reported at fair value. The accounting for changes in fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. To qualify for hedge accounting, at the inception of the hedging transaction, we formally document the risk management objective and strategy for undertaking the hedging transaction, as well as the designation of the hedge as either a fair value hedge or a cash flow hedge. Included in this documentation is how the hedging instrument is expected to hedge the designated risk(s) related to the specific assets or liabilities on the balance sheet or to specific forecasted transactions as well as a description of the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness and the method that will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk(s) of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship, using qualitative and quantitative methods. Qualitative methods include comparison of critical terms of the derivative to the hedged item. Quantitative methods include regression or other statistical analysis of changes in fair value or cash flows associated with the hedge relationship. For those derivatives that are designated and qualify as hedging instruments, the derivative is designated, based upon the exposure being hedged, as one of the following:

*Fair value hedge.* Changes in the fair value of the derivative as well as the offsetting change in fair value on the hedged item attributable to the risk being hedged are recognized in current earnings as a component of net realized investment gain or loss during the period of change in fair value. The gain or loss on the termination of an effective fair value hedge is recognized in current earnings as a component of net realized investment gain or loss.

*Cash flow hedge.* To the extent it is effective, changes in the fair value of the derivative are reported in other comprehensive income and reclassified into earnings and reported on the same income statement line item as the hedged item and in the same period or periods during which the hedged item affects earnings. The ineffective portion of the hedge, if any, is recognized in current earnings as a component of net realized investment gain or loss during the period of change in fair value. The gain or loss on the termination of an effective cash flow hedge is reported in other comprehensive income and reclassified into earnings and reported on the same income statement line item as the hedged item and in the same period or periods during which the hedged item affects earnings.

Gains or losses on the termination of ineffective hedges are reported in current earnings as a component of net realized investment gain or loss. In the event a hedged item is disposed of or the anticipated transaction being hedged is no longer likely to occur, we will terminate the related derivative and recognize the gain or loss on termination in current earnings as a component of net realized investment gain or loss. In the event a hedged item is disposed of subsequent to the termination of the hedging transaction, we reclassify any remaining gain or loss on the cash flow hedge out of accumulated other comprehensive income into current earnings as a component of the same income statement line item wherein we report the gain or loss on disposition of the hedged item.

Our freestanding derivatives all qualify as hedges and have been designated as either cash flow hedges or fair value hedges. We do not have any speculative positions in our freestanding derivatives. For a derivative not designated as a hedging instrument, the change in fair value is recognized in earnings during the period of change. Changes in the fair values of certain embedded derivatives are reported as realized investment gains and losses during the period of change.

In our consolidated balance sheets, we do not offset fair value amounts recognized for derivatives executed with the same counterparty under a master netting agreement and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from those master netting agreements.

**Fair Value Measurement:** All of our fixed maturity securities are reported at fair value. Our derivative financial instruments, including certain derivative instruments embedded in other contracts, are reported as either assets or liabilities and measured at fair value. We hold an immaterial amount of equity securities, which are also reported at fair value. We define 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. Fair value represents an exit price, not an entry price. The exit price objective applies regardless of our intent and/or ability to sell the asset or transfer the liability at the measurement date.

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types: the market approach, the income approach, and the cost approach. 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. 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 depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. Inputs to valuation techniques 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 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.

We prioritize the inputs to fair valuation techniques and use unobservable inputs to the extent that observable inputs are not available. We categorize our assets and liabilities measured at estimated fair value into a three-level hierarchy, based on the priority of the inputs. The fair value hierarchy gives the highest priority to inputs which are unadjusted and represent quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). See also Note 3.

**Realized Investment Gains and Losses:** Realized investment gains and losses are reported as a component of revenue in the consolidated statements of income and are based upon specific identification of the investments sold. If we determine that the decline in value of an investment is other than temporary, the investment is written down to fair value, and an impairment loss is recognized in the current period, either in earnings or in both earnings and other comprehensive income, as applicable. Other-than-temporary impairment losses on fixed maturity securities which we intend to sell or more likely than not will be required to sell before recovery in value are recognized in earnings and equal the entire difference between the security's amortized cost basis and its fair value. For securities which we do not intend to sell and it is not more likely than not that we will be required to sell before recovery in value, other-than-temporary impairment losses recognized in earnings generally represent the difference between the amortized cost of the security and the present value of our best estimate of cash flows expected to be collected, discounted using the effective interest rate implicit in the security at the date of acquisition. For fixed maturity securities for which we have recognized an other-than-temporary impairment loss through earnings, if through subsequent evaluation there is a significant increase in expected cash flows, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as net investment income.

**Reinsurance Recoverable:** We routinely cede reinsurance to other insurance companies. For ceded reinsurance agreements wherein we are not relieved of our legal liability to our policyholders, we report assets and liabilities on a gross basis. Our reinsurance recoverable includes the balances due from reinsurers under the terms of these reinsurance agreements for ceded policy and contract benefits, ceded future policy and contract benefits, and ceded unearned premiums, less ceded policy loans.

**Deferred Acquisition Costs:** Certain costs of acquiring new business that vary with and are primarily related to the production of new business have been deferred. Such costs include commissions, other agency compensation, certain selection and policy issue expenses, and certain field expenses. Acquisition costs that do not vary with the production of new business, such as commissions on group products which are generally level throughout the life of the policy, are excluded from deferral. Deferred acquisition costs are subject to recoverability testing at the time of policy issue and loss recognition testing in subsequent years.

Deferred acquisition costs related to traditional policies are amortized over the premium paying period of the related policies in proportion to the ratio of the present value of annual expected premium income to the present value of total expected premium income. Such amortization is adjusted quarterly to reflect the actual policy persistency as compared to the anticipated experience.

Deferred acquisition costs related to interest-sensitive policies are amortized over the lives of the policies in relation to the present value of estimated gross profits from surrender charges, mortality margins, investment returns, and expense margins. Adjustments are made quarterly to reflect actual experience for assumptions which deviate significantly compared to anticipated experience.

Internal replacement transactions wherein the modification does not substantially change the policy are accounted for as continuations of the replaced contracts. Unamortized deferred acquisition costs from the original policy continue to be amortized over the expected life of the new policy, and the costs of replacing the policy are accounted for as policy maintenance costs and expensed as incurred. Internal replacement transactions, principally on group contracts, that result in a policy that is substantially changed are accounted for as an extinguishment of the original policy and the issuance of a new policy. Unamortized deferred acquisition costs on the original policy that was replaced are immediately expensed, and the costs of acquiring the new policy are capitalized and amortized in accordance with our accounting policies for deferred acquisition costs.

Loss recognition is generally performed on an annual basis. Insurance contracts are grouped for each major product line within a segment when we perform the loss recognition tests. If loss recognition testing indicates that deferred acquisition costs are not recoverable, the deficiency is charged to expense. The assumptions used in loss recognition testing represent our best estimates of future experience.

**Goodwill:** Goodwill is the excess of the amount paid to acquire a business over the fair value of the net assets acquired. We review the carrying amount of goodwill for impairment during the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that the carrying amount might not be recoverable. Goodwill impairment testing compares the fair value of a reporting unit with its carrying amount, including goodwill. The fair values of the reporting units are determined using discounted cash flow models. The critical estimates necessary in determining fair value are projected earnings and the discount rate. We set our discount rate assumption based on

an expected risk adjusted cost of capital. If the fair value of the reporting unit to which the goodwill relates is less than the carrying amount of the unamortized goodwill, the carrying amount is reduced with a corresponding charge to expense.

**Property and Equipment:** Property and equipment is reported at cost less accumulated depreciation, which is calculated on the straight-line method over the estimated useful life. The accumulated depreciation for property and equipment was \$619.7 million and \$563.7 million as of December 31, 2009 and 2008, respectively.

**Value of Business Acquired:** Value of business acquired represents the present value of future profits recorded in connection with the acquisition of a block of insurance policies. The asset is amortized based upon expected future premium income for traditional insurance policies and estimated future gross profits for interest-sensitive insurance policies. The value of business acquired, which is included in other assets in our consolidated balance sheets, was \$46.2 million and \$50.5 million at December 31, 2009 and 2008, respectively. The accumulated amortization for value of business acquired was \$108.2 million and \$92.2 million as of December 31, 2009 and 2008, respectively.

The amortization of value of business acquired, which is included in other expenses in the consolidated statements of income, was \$7.8 million, \$7.8 million, and \$7.9 million for the years ended December 31, 2009, 2008, and 2007, respectively. We periodically review the carrying amount of value of business acquired using the same methods used to evaluate deferred acquisition costs.

**Policy and Contract Benefits:** Policy and contract benefits represent amounts paid and expected to be paid based on reported losses and estimates of incurred but not reported losses for traditional life and accident and health products. For interest-sensitive products, benefits are the amounts paid and expected to be paid on insured claims in excess of the policyholders' policy fund balances.

**Policy and Contract Benefits Liabilities:** Policy reserves represent future policy and contract benefits for claims not yet incurred. Policy reserves for traditional life and accident and health products are determined using the net level premium method. The reserves are calculated based upon assumptions as to interest, persistency, morbidity, and mortality that were appropriate at the date of issue. Interest rate assumptions are based on actual and expected net investment returns. Persistency assumptions are based on our actual historical experience adjusted for future expectations. Morbidity and mortality assumptions are based on actual experience or industry standards adjusted as appropriate to reflect our actual experience and future expectations. The assumptions vary by plan, year of issue, and policy duration and include a provision for adverse deviation.

Policy reserves for group single premium annuities have been provided on a net single premium method. The reserves are calculated based on assumptions as to interest, mortality, and retirement that were appropriate at the date of issue. Mortality assumptions are based upon industry standards adjusted as appropriate to reflect our actual experience and future expectations. The assumptions vary by year of issue.

Policy reserves for interest-sensitive products are principally policyholder account values.

We perform loss recognition tests on our policy reserves annually, or more frequently if appropriate, using best estimate assumptions as of the date of the test, without a provision for adverse deviation. We group the policy reserves for each major product line within a segment when we perform the loss recognition tests. If the policy reserves determined using these best estimate assumptions are higher than our existing policy reserves net of any deferred acquisition cost balance, the existing policy reserves are increased or deferred acquisition costs are reduced to immediately recognize the deficiency.

Claim reserves represent future policy and contract benefits for claims that have been incurred or are estimated to have been incurred but not yet reported to us. Our claim reserves relate primarily to disability policies and are calculated based on assumptions as to interest and claim resolution rates that are currently appropriate. Claim resolution rate assumptions are based on our actual experience. The interest rate assumptions used for discounting claim reserves are based on projected portfolio yield rates, after consideration for defaults and investment expenses, for the assets supporting the liabilities for the various product lines. Unlike policy reserves, claim reserves are subject to revision as current claim experience and projections of future experience change.

**Policyholders' Funds:** Policyholders' funds represent customer deposits plus interest credited at contract rates. We control interest rate risk by investing in quality assets which have an aggregate duration that closely matches the expected duration of the liabilities.

**Income Tax:** Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Deferred taxes have been measured using enacted statutory income tax rates and laws that are currently in effect. We record deferred tax assets for tax positions taken in the U.S. and other tax jurisdictions based on our assessment of whether a position is more likely than not to be sustained upon examination based solely on its technical merits. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized.

**Short-term and Long-term Debt:** Short-term and long-term debt are carried at the unpaid principal balance, net of unamortized discount or premium. Original issue discount or premium as well as debt issue costs are recognized as a component of interest expense over the period the debt is expected to be outstanding. Short-term debt is debt due within the next twelve months, including that portion of debt otherwise classified as long-term.

**Deferred Gain or Loss on Reinsurance:** Where applicable, gains or losses on reinsurance transactions are deferred and amortized into earnings based upon expected future premium income for traditional insurance policies and estimated future gross profits for interest-sensitive insurance policies. The deferred gain on reinsurance included in other liabilities in our consolidated balance sheets at December 31, 2009 and 2008 was \$123.1 million and \$150.0 million, respectively.

**Treasury Stock:** Treasury stock is reflected as a reduction of stockholders' equity at cost.

**Revenue Recognition:** Traditional life and accident and health products are long-duration contracts, and premium income is recognized as revenue when due from policyholders. If the contracts are experience rated, the estimated ultimate premium is recognized as revenue over the period of the contract. The estimated ultimate premium, which is revised to reflect current experience, is based on estimated claim costs, expenses, and profit margins.

For interest-sensitive products, the amounts collected from policyholders are considered deposits, and only the deductions during the period for cost of insurance, policy administration, and surrenders are included in revenue. Policyholders' funds represent funds deposited by contract holders and are not included in revenue.

**Premium Tax Expense:** Premium tax expense is included in other operating expenses in the consolidated statements of income. For the years ended December 31, 2009, 2008, and 2007, premium tax expense was \$130.2 million, \$133.2 million, and \$130.8 million, respectively.

**Stock-Based Compensation:** The cost of stock-based compensation is measured based on the grant date fair value of the award. We use the Black-Scholes options valuation model for estimating the fair value of stock options and stock purchased through participation in our employee stock purchase plan and the Monte-Carlo model for estimating the fair value of our performance restricted stock units. All other currently outstanding stock awards are valued based on the market value of common stock at the grant date. Stock-based awards that do not require future service are expensed immediately, and stock-based awards that require future service are amortized over the relevant service period, with an offsetting increase to additional paid-in capital in stockholders' equity.

**Earnings Per Share:** We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding for the period plus the shares representing the dilutive effect of stock-based awards and adjustable conversion-rate equity security units.

**Translation of Foreign Currency:** Revenues and expenses of our foreign operations are translated at average exchange rates. Assets and liabilities are translated at the rate of exchange on the balance sheet dates. The translation gain or loss is generally reported in accumulated other comprehensive income, net of deferred tax.

**Accounting for Participating Individual Life Insurance:** Participating policies issued by one of our subsidiaries prior to its 1986 conversion from a mutual to a stock life insurance company will remain participating as long as the policies remain in-force. A Participation Fund Account (PFA) was established for the benefit of all such individual participating life and annuity policies and contracts. The assets of the PFA provide for the benefit, dividend, and certain expense obligations of the participating individual life insurance policies and annuity

contracts. The assets of the PFA were \$359.8 million and \$391.2 million at December 31, 2009 and 2008, respectively, and represented approximately 0.7 and 0.8 percent, respectively, of consolidated assets.

#### Accounting Updates Adopted in 2009:

*Accounting Standards Codification (ASC) 105 "Generally Accepted Accounting Principles."* In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Securities and Exchange Commission (SEC) rules and interpretive releases, which may not be included in their entirety within the Codification, will remain as authoritative GAAP for SEC registrants. We adopted Codification effective July 1, 2009. The adoption of Codification had no effect on our financial position or results of operations.

*ASC 320 "Investments—Debt and Equity Securities."* In April 2009, the FASB issued a new accounting standard, now included in ASC 320, which amends the other-than-temporary impairment guidance for debt securities and expands and increases the frequency of previously existing disclosures for other-than-temporary impairments. The measure of impairment remains fair value. Under the standard, an other-than-temporary impairment must be recognized in earnings for a debt security in an unrealized loss position when an entity either (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery.

The amount of impairment recognized is equal to the difference between amortized cost and fair value. For all debt securities in unrealized loss positions that do not meet either of these two criteria, the standard requires that an entity analyze its ability to recover the amortized cost by comparing the present value of cash flows with the amortized cost of the security. If the present value of our best estimate of cash flows expected to be collected is less than the amortized cost of the security, an other-than-temporary impairment is recorded. The impairment loss is separated into two components, the portion of the impairment related to credit and the portion related to factors other than credit. The credit-related portion of an other-than-temporary impairment, which is the difference between the amortized cost of the security and the present value of cash flows expected to be collected, is recognized in earnings. Other-than-temporary impairments related to factors other than credit are charged to earnings if it is unlikely that the fair value of the security will recover prior to its disposal. Otherwise, non-credit-related other-than-temporary impairments are charged to other comprehensive income, net of tax. We adopted this standard effective April 1, 2009. The cumulative effect of applying the provisions of this standard increased the April 1, 2009 opening balance of retained earnings \$14.3 million, net of tax of \$7.7 million, with a corresponding adjustment to accumulated other comprehensive income (loss).

*ASC 715 "Compensation—Retirement Benefits."* In December 2008, the FASB issued a new accounting standard, now included in ASC 715, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. We adopted this standard effective December 31, 2009. This standard expanded our disclosures but had no effect on our financial position or results of operations.

*ASC 815 "Derivatives and Hedging."* In March 2008, the FASB issued a new accounting standard, now included in ASC 815, to provide additional guidance intended to improve financial reporting about derivative instruments and hedging activities. This standard requires enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. We adopted this standard effective January 1, 2009. This standard expanded our disclosures but had no effect on our financial position or results of operations.

*ASC 820 "Fair Value Measurements and Disclosures."* In April 2009, the FASB issued a new accounting standard, now included in ASC 820, to provide additional guidance for estimating fair value but reemphasized that the objective of fair value measurement remained an exit price. This standard provides guidance for determining whether there has been a significant decrease in the volume and level of activity in the market and provides factors for companies to consider in identifying transactions that are not orderly. The standard also discusses the necessity of adjustments to transaction or quoted prices to estimate fair value when it is determined that there has been a significant decrease in the volume and level of activity or that the transaction is not orderly. We adopted this standard effective April 1, 2009. This standard expanded our disclosures but did not have a material effect on our financial position or results of operations.

In August 2009, the FASB issued an update to provide clarification concerning fair value measurements and disclosures for liabilities and, in particular, for circumstances in which a quoted price in an active market for an identical liability is not available. We adopted this update effective December 31, 2009. The adoption of this update had no effect on our financial position or results of operations.

In September 2009, the FASB issued an update to permit a reporting entity to measure the fair value of an investment on the basis of net asset value per share if the net asset value is calculated in a manner consistent with the measurement principles of U.S. GAAP for investment companies. This update also requires disclosures by major category of investments about the attributes of investments, such as the nature of any restrictions on the investor's ability to redeem its investments, any unfunded commitments, and the investment strategies of the investees. We adopted this update effective December 31, 2009. The adoption of this update had no effect on our financial position or results of operations.

*ASC 825 "Financial Instruments."* In April 2009, the FASB issued a new accounting standard, now included in ASC 825, which requires companies to disclose the fair value of certain financial instruments in interim financial statements. This standard also requires companies to disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and to discuss changes, if any, in those methods or assumptions during the period. We adopted this standard effective April 1, 2009. This standard expanded our disclosures but had no effect on our financial position or results of operations.

*ASC 855 "Subsequent Events."* In May 2009, the FASB issued a new accounting standard, now included in ASC 855, to provide subsequent events guidance. This topic was previously addressed only in the auditing literature, and is largely similar to the auditing guidance with limited exceptions which are not intended to result in significant changes in practice. We adopted this standard effective June 30, 2009. The FASB issued an update in February 2010 to remove the requirement, for certain entities, to disclose the date through which subsequent events have been evaluated. This standard and update had no effect on our financial position or results of operations.

#### Accounting Updates Adopted in 2008:

*ASC 325 "Investments—Other."* In January 2009, the FASB issued a new accounting standard, now included in ASC 325, to amend the impairment guidance on purchased beneficial interests and beneficial interests that continue to be held by a transferor in securitized financial assets to achieve more consistent determination of whether an other-than-temporary impairment has occurred. This standard retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements for certain investments in debt and equity securities. We adopted this standard effective December 31, 2008. The adoption of this standard did not have a material effect on our financial position or results of operations.

*ASC 820 "Fair Value Measurements and Disclosures."* In September 2006, the FASB issued a new accounting standard, now included in ASC 820, to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. We adopted this standard effective January 1, 2008. The adoption of this standard did not have a material effect on our financial position or results of operations.

#### Accounting Updates Adopted in 2007:

*ASC 740 "Income Taxes."* In June 2006, the FASB issued an interpretation to provide authoritative accounting guidance, now included in ASC 740, for income tax positions. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and 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, this interpretation provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted this interpretation effective January 1, 2007. The cumulative effect of adopting this interpretation, effective January 1, 2007, increased our 2007 opening balance of retained earnings \$22.7 million.

*ASC 815 "Derivatives and Hedging."* In February 2006, the FASB issued a new accounting standard, now included in ASC 815, to amend previous guidance for certain hybrid financial instruments. This standard (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 ASC 815; (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. We adopted this standard effective January 1, 2007. The adoption of this standard did not have a material effect on our financial position or results of operations.

*ASC 944 "Financial Services—Insurance."* In September 2005, the American Institute of Certified Public Accountants modified GAAP to provide accounting guidance, now included in ASC 944, for modifications or exchanges of certain insurance contracts. This modification provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of certain insurance and investment contracts. 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. We adopted this guidance effective January 1, 2007. The cumulative effect of applying the provisions of this guidance decreased our 2007 opening balance of retained earnings \$445.2 million.

#### Accounting Updates Outstanding:

*ASC 810 "Consolidation."* In June 2009, the FASB issued an update to require a qualitative rather than a quantitative analysis to determine the primary beneficiary of a variable interest entity and require enhanced disclosures about an enterprise's involvement with a variable interest entity. This update is effective for annual and interim periods beginning after November 15, 2009. The adoption of this update will have no material effect on our financial position or results of operations.

*ASC 820 "Fair Value Measurements and Disclosures."* In January 2010, the FASB issued an update to require a number of additional disclosures regarding fair value measurements. Specifically, the update requires a reporting entity to disclose the amounts of significant transfers between Level 1 and Level 2 of the three tier fair value hierarchy and the reasons for these transfers, as well as the reasons for any transfers in or out of Level 3, effective for annual and interim periods beginning after December 15, 2009. The update also requires information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis, effective for annual and interim periods beginning after December 15, 2010. The adoption of this update will have no effect on our financial position or results of operations.

*ASC 860 "Transfers and Servicing."* In June 2009, the FASB issued an update to eliminate the exceptions for qualifying special-purpose entities from the consolidation guidance and eliminate the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, this update clarifies certain requirements for financial assets that are eligible for sale accounting and requires enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. This update is effective for annual and interim periods beginning after November 15, 2009. The adoption of this update will have no material effect on our financial position or results of operations.

## Note 2. 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 consolidated statements of income. We intend to continue to purchase certain disability management services for a period of up to five years from the effective date of the sale. The cost of the services to be purchased was negotiated in an arm's-length transaction and is not significant to our results of operations. The intercompany amount paid to GENEX for these types of services was \$2.3 million for the two months ended February 28, 2007.

The results of GENEX are reported as discontinued operations and excluded from segment results. For the year ended December 31, 2007, results related to GENEX include revenue of \$47.2 million and basic and diluted earnings per common share of \$0.02.

## Note 3. Fair Values of Financial Instruments

Presented as follows are the carrying amounts and fair values of financial instruments. The carrying values of financial instruments such as short-term investments, cash and bank deposits, accounts and premiums receivable, and accrued investment income approximate fair value due to the short-term nature of the instruments. As such, these financial instruments are not included in the following chart.

(in millions of dollars)	December 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Fixed Maturity Securities	\$37,914.4	\$37,914.4	\$32,134.1	\$32,134.1
Mortgage Loans	1,404.0	1,402.5	1,274.8	1,224.4
Policy Loans	2,878.0	2,907.7	2,753.8	2,811.0
Other Long-term Investments				
Derivatives	81.1	81.1	381.8	381.8
Equity Securities	1.5	1.5	35.6	35.6
Miscellaneous Long-term Investments	150.9	150.9	102.7	102.7
<b>Liabilities</b>				
Policyholders' Funds				
Deferred Annuity Products	\$ 684.0	\$ 684.0	\$ 746.4	\$ 746.4
Supplementary Contracts Without Life Contingencies	445.6	445.6	402.5	402.5
Short-term Debt	—	—	190.5	188.9
Long-term Debt	2,549.6	2,296.0	2,259.4	1,677.4
Other Liabilities				
Derivatives	144.6	144.6	79.4	79.4
Embedded Derivative in Modified Coinsurance Arrangement	117.4	117.4	360.5	360.5

The methods and assumptions used to estimate fair values of financial instruments are discussed as follows.

## Fair Value Measurements for Financial Instruments Not Carried at Fair Value

**Mortgage Loans:** Fair values are estimated using discounted cash flow analyses and interest rates currently being offered for similar loans to borrowers with similar credit ratings and maturities. Loans with similar characteristics are aggregated for purposes of the calculations.

**Policy Loans:** Fair values for policy loans, net of reinsurance ceded, are estimated using discounted cash flow analyses and interest rates currently being offered to policyholders with similar policies. The carrying amounts of ceded policy loans of \$2,675.7 million and \$2,555.6 million as of December 31, 2009 and 2008, respectively, are reported on a gross basis in our consolidated balance sheets and approximate fair value.

**Miscellaneous Long-term Investments:** Carrying amounts approximate fair value.

**Policyholders' Funds:** Policyholders' funds are comprised primarily of deferred annuity products and supplementary contracts without life contingencies. The carrying amounts approximate fair value.

Fair values for insurance contracts other than investment contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in our overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

**Short-term and Long-term Debt:** Fair values are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.

## Fair Value Measurements for Financial Instruments Carried at Fair Value

We report fixed maturity securities, derivative financial instruments, and equity securities at fair value in our consolidated balance sheets. 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. An active market for a financial instrument is a market in which transactions for an asset or a similar asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and should be used to measure fair value whenever available. 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 used for assets and liabilities accounted for at fair value are generally categorized into three types. The market approach uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. The income approach converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. 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.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available that can be obtained without undue cost and effort. 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 depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach valuation technique provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When markets are less active, brokers may rely more on models with inputs based on the

information available only to the broker. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2009, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2008. Because of market conditions existing during 2009 and 2008, the mix and availability of observable inputs for valuation techniques have been volatile, and the risk inherent in the inputs is elevated relative to prior years.

We use observable and unobservable inputs in measuring the fair value of our financial instruments. Inputs that may be used include the following:

- Broker market maker prices and price levels
- Trade Reporting and Compliance Engine (TRACE) pricing
- Prices obtained from external pricing services
- Benchmark yields (Treasury and interest rate swap curves)
- Transactional data for new issuance and secondary trades
- Security cash flows and structures
- Recent issuance/supply
- Sector and issuer level spreads
- Security credit ratings/maturity/capital structure/optionality
- Corporate actions
- Underlying collateral
- Prepayment speeds/loan performance/delinquencies/weighted average life/seasoning
- Public covenants
- Comparative bond analysis
- Derivative spreads
- Relevant reports issued by analysts and rating agencies

We review all prices obtained to ensure they are consistent with a variety of observable market inputs and to verify the validity of a security's price. The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources when they do not represent a valid exit price. These adjustments may be made when, in our judgment and considering our knowledge of the financial conditions and industry in which the issuer operates, certain features of the financial instrument require that an adjustment be made to the value originally obtained from our pricing sources. These features may include the complexity of the financial instrument, the market in which the financial instrument is traded, counterparty credit risk, credit structure, concentration, or liquidity. Additionally, an adjustment to the price derived from a model typically reflects our judgment of the inputs that other participants in the market for the financial instrument being measured at fair value would consider in pricing that same financial instrument.

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.

Fair values for derivatives other than embedded derivatives in modified coinsurance arrangements are based on market quotes or pricing models and represent the net amount of cash we would have paid or received if the contracts had been settled or closed as of the last day of the period. We analyze credit default swap spreads relative to the average credit spread embedded within the London Interbank Offered Rate (LIBOR) setting syndicate in determining the effect of credit risk on our derivatives' fair values. If counterparty credit risk for a derivative asset is determined to be material and is not adequately reflected in the LIBOR-based fair value obtained from our pricing sources, we adjust the valuations obtained from our pricing sources. In regard to our own credit risk component, we adjust the valuation of derivative

liabilities wherein the counterparty is exposed to our credit risk when the LIBOR-based valuation of our derivatives obtained from pricing sources does not effectively include an adequate credit component for our own credit risk.

Fair values for our embedded derivative in a modified coinsurance arrangement are estimated using internal pricing models and represent the hypothetical value of the duration mismatch of assets and liabilities, interest rate risk, and third party credit risk embedded in the modified coinsurance arrangement.

Certain of our investments do not have readily determinable market prices and/or observable inputs or may at times be affected by the lack of market liquidity. 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.

At December 31, 2009, approximately 11.6 percent of our fixed maturity securities were valued using active trades from TRACE pricing or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1, the highest category of the three-level fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities.

The remaining 88.4 percent of our fixed maturity securities were valued based on non-binding quotes or other observable or unobservable inputs, as discussed below.

- Approximately 72.7 percent of our fixed maturity securities were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These assets were classified as Level 2. Level 2 assets or liabilities are those valued using inputs (other than prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Approximately 5.8 percent of our fixed maturity securities were valued based on one or more non-binding broker price levels, if validated by observable market data, or on TRACE prices for identical or similar assets absent current market activity. When only one price is available, it is used if observable inputs and analysis confirm that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.
- Approximately 9.9 percent of our fixed maturity securities were valued based on prices of comparable securities, matrix pricing, market models, and/or internal models or were valued based on non-binding quotes with no other observable market data. These assets were classified as either Level 2 or Level 3, with the categorization dependent on whether there was other observable market data. Level 3 is the lowest category of the fair value hierarchy and reflects the judgment of management regarding what market participants would use in pricing assets or liabilities at the measurement date. Financial assets and liabilities categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value.

We consider transactions in inactive or disorderly markets to be less representative of fair value. We use all available observable inputs when measuring fair value, but when significant other unobservable inputs and adjustments are necessary, we classify these assets or liabilities as Level 3.

The categorization of fair value measurements by input level is as follows:

(in millions of dollars)	December 31, 2009			Total
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>				
Fixed Maturity Securities				
United States Government and				
Government Agencies and Authorities	\$ —	\$ 1,473.2	\$ —	\$ 1,473.2
States, Municipalities, and Political Subdivisions	75.6	547.3	—	622.9
Foreign Governments	—	1,491.5	—	1,491.5
Public Utilities	940.4	7,577.0	264.3	8,781.7
Mortgage/Asset-Backed Securities	—	3,718.4	4.7	3,723.1
All Other Corporate Bonds	3,370.6	17,830.5	580.0	21,781.1
Redeemable Preferred Stocks	5.5	15.0	20.4	40.9
Total Fixed Maturity Securities	4,392.1	32,652.9	869.4	37,914.4
Other Long-term Investments				
Derivatives	—	81.1	—	81.1
Equity Securities	—	—	1.5	1.5
<b>Liabilities</b>				
Other Liabilities				
Derivatives	\$ —	\$ 144.6	\$ —	\$ 144.6
Embedded Derivative in Modified Coinsurance Arrangement	—	—	117.4	117.4

	December 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
<b>Assets</b>				
Fixed Maturity Securities				
United States Government and				
Government Agencies and Authorities	\$ 195.8	\$ 1,530.6	\$ —	\$ 1,726.4
States, Municipalities, and Political Subdivisions	16.5	144.5	—	161.0
Foreign Governments	—	1,146.6	28.0	1,174.6
Public Utilities	427.0	6,329.7	114.5	6,871.2
Mortgage/Asset-Backed Securities	—	3,940.9	4.6	3,945.5
All Other Corporate Bonds	2,376.9	15,080.1	590.3	18,047.3
Redeemable Preferred Stocks	9.8	190.2	8.1	208.1
Total Fixed Maturity Securities	3,026.0	28,362.6	745.5	32,134.1
Other Long-term Investments				
Derivatives	—	381.8	—	381.8
Equity Securities	33.6	0.5	1.5	35.6
<b>Liabilities</b>				
Other Liabilities				
Derivatives	\$ —	\$ 79.4	\$ —	\$ 79.4
Embedded Derivative in Modified Coinsurance Arrangement	—	—	360.5	360.5

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

Year Ended December 31, 2009								
(in millions of dollars)	Beginning of Year	Total Realized and Unrealized Investment Gains (Losses) Included in			Net Purchases and Sales	Level 3 Transfers		End of Year
		Earnings	Other Comprehensive Income or Loss			Into	Out of	
<b>Fixed Maturity Securities</b>								
Foreign Governments	\$ 28.0	\$ —	\$ —	\$ —	\$ —	\$ (28.0)	\$ —	
Public Utilities	114.5	—	39.8	60.2	138.4	(88.6)	264.3	
Mortgage/Asset-Backed Securities	4.6	—	0.3	(0.2)	—	—	4.7	
All Other Corporate Bonds	590.3	(5.5)	85.3	(56.9)	214.0	(247.2)	580.0	
Redeemable Preferred Stocks	8.1	—	12.3	—	—	—	20.4	
<b>Total Fixed Maturity Securities</b>	<b>745.5</b>	<b>(5.5)</b>	<b>137.7</b>	<b>3.1</b>	<b>352.4</b>	<b>(363.8)</b>	<b>869.4</b>	
Equity Securities	1.5	(0.5)	—	—	0.5	—	1.5	
Embedded Derivative in Modified Coinsurance Arrangement	(360.5)	243.1	—	—	—	—	(117.4)	
Year Ended December 31, 2008								
(in millions of dollars)	Beginning of Year	Total Realized and Unrealized Investment Gains (Losses) Included in			Net Purchases and Sales	Level 3 Transfers		End of Year
		Earnings	Other Comprehensive Income or Loss			Into	Out of	
<b>Fixed Maturity Securities</b>								
Foreign Governments	\$ 30.5	\$ —	\$ (2.5)	\$ —	\$ —	\$ —	\$ 28.0	
Public Utilities	52.4	—	(17.7)	11.5	112.0	(43.7)	114.5	
Mortgage/Asset-Backed Securities	5.4	—	(0.8)	—	—	—	4.6	
All Other Corporate Bonds	332.6	(2.3)	(134.4)	(27.0)	537.7	(116.3)	590.3	
Redeemable Preferred Stocks	0.1	—	(14.9)	—	22.9	—	8.1	
<b>Total Fixed Maturity Securities</b>	<b>421.0</b>	<b>(2.3)</b>	<b>(170.3)</b>	<b>(15.5)</b>	<b>672.6</b>	<b>(160.0)</b>	<b>745.5</b>	
Equity Securities	1.5	(1.1)	0.1	1.1	—	(0.1)	1.5	
Embedded Derivative in Modified Coinsurance Arrangement	(68.8)	(291.7)	—	—	—	—	(360.5)	

Realized and unrealized investment gains and losses presented in the preceding tables represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the level of activity in the market and whether the market was considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period. Gains (losses) for the years ended December 31, 2009 and 2008 which are included in earnings and are attributable to the change in unrealized gains or losses relating to assets or liabilities valued using significant unobservable inputs and still held at each year end were

\$243.1 million and \$(291.7) million, respectively. These amounts relate entirely to the changes in fair value of an embedded derivative associated with a modified coinsurance arrangement which are reported as realized investment gains and losses.

## Note 4. Investments

### Fixed Maturity Securities

The amortized cost and fair values of securities by security type are shown as follows. Certain prior year amounts have been reclassified by security type to conform to current year presentation.

(in millions of dollars)	December 31, 2009				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Other-Than-Temporary Impairments in AOCI <sup>(1)</sup>
<b>Available-for-Sale Securities</b>					
United States Government and Government Agencies and Authorities	\$ 1,473.5	\$ 64.0	\$ 64.3	\$ 1,473.2	\$ —
States, Municipalities, and Political Subdivisions	640.1	19.9	37.1	622.9	—
Foreign Governments	1,357.8	135.0	1.3	1,491.5	—
Public Utilities	8,359.7	531.1	109.1	8,781.7	—
Mortgage/Asset-Backed Securities	3,413.6	313.1	3.6	3,723.1	—
All Other Corporate Bonds	20,617.9	1,538.7	375.5	21,781.1	8.3
Redeemable Preferred Stocks	42.8	0.3	2.2	40.9	—
<b>Total Fixed Maturity Securities</b>	<b>\$35,905.4</b>	<b>\$2,602.1</b>	<b>\$593.1</b>	<b>\$37,914.4</b>	<b>\$8.3</b>

(1) Accumulated Other Comprehensive Income (Loss)

(in millions of dollars)	December 31, 2008			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
<b>Available-for-Sale Securities</b>				
United States Government and Government Agencies and Authorities	\$ 1,594.6	\$ 194.9	\$ 63.1	\$ 1,726.4
States, Municipalities, and Political Subdivisions	162.7	3.5	5.2	161.0
Foreign Governments	1,069.3	117.8	12.5	1,174.6
Public Utilities	7,554.5	115.8	799.1	6,871.2
Mortgage/Asset-Backed Securities	3,691.7	308.9	55.1	3,945.5
All Other Corporate Bonds	19,949.1	537.3	2,439.1	18,047.3
Redeemable Preferred Stocks	385.7	—	177.6	208.1
<b>Total Fixed Maturity Securities</b>	<b>\$34,407.6</b>	<b>\$1,278.2</b>	<b>\$3,551.7</b>	<b>\$32,134.1</b>

The following charts indicate the length of time our fixed maturity securities had been in a gross unrealized loss position.

(in millions of dollars)	December 31, 2009			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
<b>Available-for-Sale Securities</b>				
United States Government and				
Government Agencies and Authorities	\$ 158.9	\$14.9	\$ 476.7	\$ 49.4
States, Municipalities, and Political Subdivisions	156.6	6.0	126.2	31.1
Foreign Governments	64.0	1.1	11.9	0.2
Public Utilities	914.3	22.2	984.9	86.9
Mortgage/Asset-Backed Securities	29.9	0.4	254.0	3.2
All Other Corporate Bonds	1,465.4	28.7	3,695.6	346.8
Redeemable Preferred Stocks	15.0	0.1	5.6	2.1
<b>Total Fixed Maturity Securities</b>	<b>\$2,804.1</b>	<b>\$73.4</b>	<b>\$5,554.9</b>	<b>\$519.7</b>

(in millions of dollars)	December 31, 2008			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
<b>Available-for-Sale Securities</b>				
United States Government and				
Government Agencies and Authorities	\$ 343.5	\$ 29.4	\$ 300.6	\$ 33.7
States, Municipalities, and Political Subdivisions	87.7	5.2	—	—
Foreign Governments	346.7	12.5	11.0	—
Public Utilities	3,023.5	365.6	1,972.3	433.5
Mortgage/Asset-Backed Securities	124.7	14.2	221.4	40.9
All Other Corporate Bonds	6,969.0	979.2	5,024.7	1,459.9
Redeemable Preferred Stocks	102.1	62.6	103.7	115.0
<b>Total Fixed Maturity Securities</b>	<b>\$10,997.2</b>	<b>\$1,468.7</b>	<b>\$7,633.7</b>	<b>\$2,083.0</b>

The following is a distribution of the maturity dates for fixed maturity securities. The maturity dates have not been adjusted for possible calls or prepayments.

December 31, 2009

(in millions of dollars)	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
<b>Available-for-Sale Securities</b>					
1 Year or Less	\$ 634.6	\$ 10.8	\$ 520.7	\$ 1.3	\$ 123.4
Over 1 Year Through 5 Years	4,142.2	271.4	3,725.9	27.4	660.3
Over 5 Years Through 10 Years	9,833.4	612.5	8,378.8	127.3	1,939.8
Over 10 Years	17,881.6	1,394.3	13,490.8	433.5	5,351.6
	32,491.8	2,289.0	26,116.2	589.5	8,075.1
Mortgage/Asset-Backed Securities	3,413.6	313.1	3,439.2	3.6	283.9
<b>Total Fixed Maturity Securities</b>	<b>\$35,905.4</b>	<b>\$2,602.1</b>	<b>\$29,555.4</b>	<b>\$593.1</b>	<b>\$8,359.0</b>

December 31, 2008

(in millions of dollars)	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
<b>Available-for-Sale Securities</b>					
1 Year or Less	\$ 365.8	\$ 4.8	\$ 251.2	\$ 3.2	\$ 116.2
Over 1 Year Through 5 Years	3,889.9	85.2	1,657.5	222.3	2,095.3
Over 5 Years Through 10 Years	9,232.0	143.2	1,856.7	1,149.7	6,368.8
Over 10 Years	17,228.2	736.1	6,138.4	2,121.4	9,704.5
	30,715.9	969.3	9,903.8	3,496.6	18,284.8
Mortgage/Asset-Backed Securities	3,691.7	308.9	3,599.4	55.1	346.1
<b>Total Fixed Maturity Securities</b>	<b>\$34,407.6</b>	<b>\$1,278.2</b>	<b>\$13,503.2</b>	<b>\$ 3,551.7</b>	<b>\$18,630.9</b>

At December 31, 2009, the fair value of investment-grade fixed maturity securities was \$35,324.6 million, with a gross unrealized gain of \$2,534.0 million and a gross unrealized loss of \$443.0 million. The gross unrealized loss on investment-grade fixed maturity securities was 74.7 percent of the total gross unrealized loss on fixed maturity securities. Unrealized losses on investment-grade fixed maturity securities principally relate to changes in interest rates or changes in market or sector credit spreads which occurred subsequent to the acquisition of the securities.

At December 31, 2009, the fair value of below-investment-grade fixed maturity securities was \$2,589.8 million, with a gross unrealized gain of \$68.1 million and a gross unrealized loss of \$150.1 million. The gross unrealized loss on below-investment-grade fixed maturity securities was 25.3 percent of the total gross unrealized loss on fixed maturity securities. Generally, below-investment-grade fixed maturity securities are more likely to develop credit concerns than investment-grade securities. At December 31, 2009, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads in certain industries or sectors and, to a lesser extent, credit concerns related to specific securities. For each specific security in an unrealized loss position, we believe that there are positive factors which mitigate credit concerns and that the securities for which we have not recorded an other-than-temporary impairment will recover in value.

As of December 31, 2009, we held 307 individual investment-grade fixed maturity securities and 82 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 188 investment-grade fixed maturity securities and 80 below-investment-grade fixed maturity securities had been in an unrealized loss position continuously for over one year.

In determining when a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we evaluate the following factors:

- Whether we expect to recover the entire amortized cost basis of the security.
- Whether we intend to sell the security or will be required to sell the security before the recovery of its amortized cost basis.
- Whether the security is current as to principal and interest payments.
- The significance of the decline in value.
- The time period during which there has been a significant decline in value.
- Current and future business prospects and trends of earnings.
- The valuation of the security's underlying collateral.
- Relevant industry conditions and trends relative to their historical cycles.
- Market conditions.
- Rating agency and governmental actions.
- Bid and offering prices and the level of trading activity.
- Adverse changes in estimated cash flows for securitized investments.
- Changes in fair value subsequent to the balance sheet date.
- Any other key measures for the related security.

We evaluate available information, including the factors noted above, both positive and negative, in reaching our conclusions. In particular, we also consider the strength of the issuer's balance sheet, its debt obligations and near term funding requirements, cash flow and liquidity, the profitability of its core businesses, the availability of marketable assets which could be sold to increase liquidity, its industry fundamentals and regulatory environment, and its access to capital markets. Although all available and applicable factors are considered in our analysis, our expectation of recovering the entire amortized cost basis of the security, whether we intend to sell the security, whether it is more likely than not we will be required to sell the security before recovery of its amortized cost, and whether the security is current on principal and interest payments are the most critical factors in determining whether impairments are other than temporary. The significance of the decline in value and the length of time during which there has been a significant decline are also important factors, but we generally do not record an impairment loss based solely on these two factors, since often other more relevant factors will impact our evaluation of a security.

While determining other-than-temporary impairments is a judgmental area, we utilize a formal, well-defined, and disciplined process to monitor and evaluate our fixed income investment portfolio, supported by issuer specific research and documentation as of the end of each period. The process results in a thorough evaluation of problem investments and the recording of losses on a timely basis for investments determined to have an other-than-temporary impairment.

If we determine that the decline in value of an investment is other than temporary, the investment is written down to fair value, and an impairment loss is recognized in the current period, either in earnings or in both earnings and other comprehensive income, as applicable. For those fixed maturity securities with an unrealized loss for which we have not recognized an other-than-temporary impairment, we believe we will recover the entire amortized cost, we do not intend to sell the security, and we do not believe it is more likely than not we will be required to sell the security before recovery of its amortized cost. There have been no defaults in the repayment obligations of any securities for which we have not recorded an other-than-temporary impairment.

Other-than-temporary impairment losses on fixed maturity securities which we intend to sell or more likely than not will be required to sell before recovery in value are recognized in earnings and equal the entire difference between the security's amortized cost basis and its fair value. For securities which we do not intend to sell and it is not more likely than not that we will be required to sell before recovery in value, other-than-temporary impairment losses recognized in earnings generally represent the difference between the amortized cost of the security and the present value of our best estimate of cash flows expected to be collected, discounted using the effective interest rate implicit in the security at the date of acquisition. The determination of cash flows is inherently subjective, and methodologies may vary depending on the circumstances specific to the security. The timing and amount of our cash flow estimates are developed using historical and forecast financial information from the issuer, including its current and projected liquidity position. We also consider industry analyst

reports and forecasts, sector credit ratings, future business prospects and earnings trends, issuer refinancing capabilities, actual and/or potential asset sales by the issuer, and other data relevant to the collectibility of the contractual cash flows of the security. We take into account the probability of default, expected recoveries, third-party guarantees, quality of collateral, and where our debt security ranks in terms of subordination. We may use the estimated fair value of collateral as a proxy for the present value of cash flows if we believe the security is dependent on the liquidation of collateral for recovery of our investment. For fixed maturity securities for which we have recognized an other-than-temporary impairment loss through earnings, if through subsequent evaluation there is a significant increase in expected cash flows, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as net investment income.

The following table presents the before-tax credit-related portion of other-than-temporary impairments on fixed maturity securities still held as of the dates shown for which a portion of the other-than-temporary impairment was recognized in other comprehensive income.

(in millions of dollars)	Period from April 1, 2009 to December 31, 2009
<b>Balance at Beginning of Period</b>	\$ —
Credit Losses Remaining in Retained Earnings Related to the Adoption of Accounting Standard	30.8
Impairment Recognized in the Period on Securities not Previously Impaired	38.4
Additional Impairment Recognized in the Period on Securities Previously Impaired	4.4
Sales or Maturities of Securities in the Period	(38.3)
Reduction for Credit Loss Impairments Previously Recognized due to Change in Intent to Sell	(17.0)
<b>Balance at End of Year</b>	<b>\$ 18.3</b>

## Special Purpose Entities

We are the sole beneficiary of a special purpose entity which is consolidated under the provisions of GAAP. The entity is a securitized asset trust containing a highly rated bond for principal protection, non-redeemable preferred stock, and several partnership equity investments. The entity does not hold investments in our common stock or debt. We contributed the bond and partnership investments into the trust at the time it was established. The purpose of this trust is to allow us to maintain our investment in the partnerships while at the same time protecting the principal of the investment. There are no restrictions on the assets held in this trust, and the trust is free to dispose of the assets at any time. Because the assets in the trust are not liquid investments, we periodically provide funding to the underlying partnerships in the trust upon satisfaction of contractual notice from the partnerships. At December 31, 2009, we had commitments to fund approximately \$1.8 million to the underlying partnerships. These amounts may or may not be funded during the life of the partnerships. The amount of funding provided to the partnerships was de minimis in 2009, 2008, and 2007. The fair values of the bond, non-redeemable preferred stock, and partnerships were \$86.6 million, \$0.1 million, and \$9.2 million, respectively, as of December 31, 2009. The bonds are reported as fixed maturity securities, and the non-redeemable preferred stock and partnerships are reported as other long-term investments in our consolidated balance sheets.

We previously were the sole beneficiary of a special purpose entity that was a securitized asset trust holding forward contracts to purchase unrelated equity securities. The trust also held a defeasance swap contract for highly rated bonds to provide principal protection for the investments. There were no restrictions on the assets held in this trust, and the trust was free to dispose of the assets at any time. The fair values of the underlying forward and swap contracts, together with the debt host instrument, equaled \$50.3 million as of December 31, 2008, and were reported as fixed maturity securities in our consolidated balance sheets. Because we intended to sell the investment, we recognized an other-than-temporary impairment loss of \$23.7 million during the third quarter of 2009 and subsequently sold the investment in the following quarter for a realized investment gain of \$2.1 million.

At December 31, 2008, we had a significant investment in, but were not the primary beneficiary of, a special purpose entity which was a collateralized bond obligation asset trust (CBO) in which we held interests in several of the tranches and for which we acted as investment manager of the underlying securities. The securities were fully redeemed by the trust during 2009. Prior to redemption, our

investment in this entity was reported at fair value with fixed maturity securities in our consolidated balance sheets. The fair value and amortized cost of this investment were \$2.5 million and \$2.4 million, respectively, at December 31, 2008. We recognized no gain or loss on disposition of these securities.

## Mortgage Loans

At December 31, 2009, mortgage loans were collateralized by office buildings (39.9 percent), industrial buildings (29.5 percent), retail stores (19.9 percent), and other properties (10.7 percent). Our mortgage loan portfolio is geographically dispersed within the United States, with the largest concentrations in California (12.3 percent) and Pennsylvania (11.0 percent).

At December 31, 2009, we held one mortgage loan which was delinquent more than 30 days as to interest or principal payments and which we consider impaired. This loan is carried at the estimated net realizable value of \$2.0 million, net of a valuation allowance of \$3.2 million. At December 31, 2008, impaired mortgage loans totaled \$5.2 million. We had no valuation allowance for mortgage loans at December 31, 2008 and no activity in the allowance during 2008. Activity in the valuation allowance during 2009 was comprised of additions of \$5.5 million and deductions of \$2.3 million.

## Off-Balance Sheet Arrangements

At December 31, 2009, we had commitments of approximately \$53.1 million to fund certain of our private placement securities, including the previously disclosed \$1.8 million commitment to fund a special purpose entity. The funds are due upon satisfaction of contractual notice from the issuer. These amounts may or may not be funded during the term of the securities.

At December 31, 2009, we had no commitments for commercial mortgage loan originations.

In the normal course of business, we receive collateral from unaffiliated third parties through transactions which include both securities lending and also short-term agreements to purchase securities with the agreement to resell them at a later, specified date. For both types of transactions, we require that a minimum of 102 percent of the fair value of the securities loaned or securities purchased under repurchase agreements be maintained as collateral. Generally, cash is received as collateral under these agreements. In the event that securities are received as collateral, we are not permitted to sell or re-post them. We also post our fixed maturity securities as collateral to unaffiliated third parties through transactions including both securities lending and also short-term agreements to sell securities with the agreement to repurchase them at a later, specified date. At December 31, 2009, we had no fixed maturity securities posted as collateral to third parties under these programs. See Note 5 for discussion of collateral posted to our derivatives counterparties.

## Net Investment Income

Sources for net investment income are as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Fixed Maturity Securities	\$2,268.5	\$2,277.0	\$2,297.4
Derivative Financial Instruments	13.5	15.1	17.8
Mortgage Loans	81.0	72.0	64.3
Policy Loans	12.4	13.0	12.7
Other Long-term Investments	11.5	15.5	7.3
Short-term Investments	6.9	40.7	49.5
Gross Investment Income	2,393.8	2,433.3	2,449.0
Less Investment Expenses	29.2	25.8	17.0
Less Investment Income on PFA Assets	18.0	18.5	22.1
<b>Net Investment Income</b>	<b>\$2,346.6</b>	<b>\$2,389.0</b>	<b>\$2,409.9</b>

## Realized Investment Gain and Loss

Realized investment gains and losses reported in our consolidated statements of income are as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Fixed Maturity Securities			
Gross Gains on Sales	\$ 48.6	\$ 64.9	\$ 56.0
Gross Losses on Sales	(83.5)	(80.8)	(29.1)
Other-Than-Temporary Impairment Loss	(211.8)	(151.1)	(53.7)
Mortgage Loans and Other Invested Assets			
Gross Gains on Sales	11.5	13.5	49.8
Gross Losses on Sales	(0.4)	(3.8)	(8.3)
Impairment Loss	(8.1)	(15.0)	(22.5)
Embedded Derivative in Modified			
Coinsurance Arrangement	243.1	(291.7)	(57.3)
Other Derivatives	12.3	(1.9)	(0.1)
<b>Net Realized Investment Gain (Loss)</b>	<b>\$ 11.7</b>	<b>\$ (465.9)</b>	<b>\$ (65.2)</b>

## Note 5. Derivative Financial Instruments

### Purpose of Derivatives

We are exposed to certain risks relating to our ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk, risk related to matching duration for our assets and liabilities, and foreign currency risk. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps, current and forward currency swaps, interest rate forward contracts, forward treasury locks, currency forward contracts, and forward contracts on specific fixed income securities. Almost all hedging transactions are associated with our individual and group long-term care and individual and group disability products. All other product portfolios are periodically reviewed to determine if hedging strategies would be appropriate for risk management purposes.

Our cash flow hedging programs are as follows:

- *Interest rate swaps* are used to hedge interest rate risks and to improve the matching of assets and liabilities. An interest rate swap is an agreement in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and variable rate interest amounts. The purpose of these swaps is to hedge the anticipated purchase of long-term bonds thereby protecting us from the potential adverse impact of declining interest rates on the associated policy reserves. We also use interest rate swaps to hedge the potential adverse impact of rising interest rates in anticipation of issuing fixed rate long-term debt.
- *Foreign currency interest rate swaps* are used to hedge the currency risk of certain foreign currency-denominated long-term bonds owned for portfolio diversification and to hedge the currency risk associated with certain of the interest payments and debt repayments of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. For long-term bonds, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment. For debt issued, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments to the counterparty in exchange for fixed rate U.S. dollar-denominated interest payment.
- *Options on forward interest rate swaps* are used to hedge the interest rate risk on certain insurance liabilities with minimum interest rate guarantees. By purchasing options on interest rate swaps, we are able to lock in the minimum investment yields needed to meet the required interest rate guarantee on the insurance liabilities.

- *Forward treasury locks* are used to minimize interest rate risk associated with the anticipated purchase or disposal of fixed maturity securities. A forward treasury lock is a derivative contract without an initial investment where we and the counterparty agree to purchase or sell a specific U.S. Treasury bond at a future date at a pre-determined price.
- *Foreign currency forward contracts* are used to minimize foreign currency risks. A foreign currency forward is a derivative without an initial investment where we and the counterparty agree to exchange a specific amount of currencies, at a specific exchange rate, on a specific date. We use these forward contracts to hedge the foreign currency risk associated with certain of the debt repayments of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries and to hedge the currency risk of certain foreign currency-denominated long-term bonds owned for diversification purposes.

Our fair value hedging program is as follows:

- *Interest rate swaps* are used to effectively convert certain of our fixed rate securities into floating rate securities which are used to fund our floating rate long-term debt. Under these swap agreements, we receive a variable rate of interest and pay a fixed rate of interest.

## Derivative Risks

The basic types of risks associated with derivatives are market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in interest and exchange rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives should generally offset the market risk associated with the hedged financial instrument or liability.

To help limit the credit exposure of the derivatives, we enter into master netting agreements with our counterparties whereby contracts in a gain position can be offset against contracts in a loss position. We also typically enter into bilateral, cross-collateralization agreements with our counterparties to help limit the credit exposure of the derivatives. These agreements require the counterparty in a loss position to submit acceptable collateral with the other counterparty in the event the net loss position meets or exceeds an agreed upon amount. Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position less collateral held, was \$7.0 million at December 31, 2009. We held cash collateral of \$24.9 million and \$174.3 million from our counterparties as of December 31, 2009 and 2008, respectively. This unrestricted cash collateral is included in short-term investments and the associated obligation to return the collateral to our counterparties is included in other liabilities in our consolidated balance sheets. We post fixed maturity securities as collateral to our counterparties rather than cash. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$123.1 million at December 31, 2009.

The majority of our derivative instruments contain provisions that require us to maintain specified issuer credit ratings and financial strength ratings. Should our ratings fall below these specified levels, we would be in violation of the provisions, and our derivatives counterparties could terminate our contracts and request immediate payment. The aggregate fair value of all derivative instruments with credit risk-related contingent features that are in a liability position as of December 31, 2009 is \$144.6 million.

During 2008, we terminated certain of our outstanding derivatives when the credit ratings of the counterparty fell below our internal investment policy guidelines. At the time of termination, the contracts were in a loss position of \$39.1 million. Consistent with our collateralization agreement, we had previously posted securities as collateral. During 2009, after further discussion with the counterparty it was determined that we would not receive the value of our collateral or pay the termination amount due to the counterparty. As a result, we were relieved of our previous liability and recorded a net realized investment loss of \$2.3 million on the disposal of the securities posted as collateral.

## Hedging Activity

The table below summarizes by notional amounts the activity for each category of derivatives.

(in millions of dollars)	Swaps			Forwards	Options	Total
	Receive Variable/Pay Fixed	Receive Fixed/Pay Fixed	Receive Fixed/Pay Variable			
<b>Balance at December 31, 2006</b>	\$ —	\$1,026.2	\$2,185.0	\$392.9	\$170.0	\$3,774.1
Additions	—	—	407.5	179.5	230.0	817.0
Terminations	—	80.6	947.5	257.3	320.0	1,605.4
<b>Balance at December 31, 2007</b>	—	945.6	1,645.0	315.1	80.0	2,985.7
Additions	174.0	224.0	742.0	35.0	—	1,175.0
Terminations	—	237.8	1,227.0	83.8	80.0	1,628.6
<b>Balance at December 31, 2008</b>	174.0	931.8	1,160.0	266.3	—	2,532.1
Additions	—	70.9	—	5.9	—	76.8
Terminations	—	340.8	380.0	267.4	—	988.2
<b>Balance at December 31, 2009</b>	<b>\$174.0</b>	<b>\$ 661.9</b>	<b>\$ 780.0</b>	<b>\$ 4.8</b>	<b>\$ —</b>	<b>\$1,620.7</b>

The following table summarizes the timing of anticipated settlements of interest rate swaps outstanding under our cash flow hedging programs at December 31, 2009, whereby we receive a fixed rate and pay a variable rate. The weighted average interest rates assume current market conditions.

(in millions of dollars)	2010	2011	2012	2013	Total
Notional Value	\$240.0	\$205.0	\$185.0	\$150.0	\$780.0
Weighted Average Receive Rate	5.67%	5.87%	6.49%	6.34%	6.05%
Weighted Average Pay Rate	0.25%	0.25%	0.25%	0.25%	0.25%

## Cash Flow Hedges

We have executed a series of cash flow hedges for certain of our long-term product portfolios using forward starting interest rate swaps. We plan to terminate these forward interest rate swaps and forward contracts at the time the projected cash flows are used to purchase fixed income securities. As of December 31, 2009 and 2008, we had \$780.0 million and \$1,160.0 million, respectively, notional amount of the forward starting interest rate swaps outstanding under this program.

As of December 31, 2009 and 2008, we had \$666.7 million and \$634.9 million, respectively, notional amount of open current and forward foreign currency swaps and foreign currency forwards to hedge fixed income foreign currency-denominated securities.

As of December 31, 2008, we had \$296.9 million notional amount of currency swaps and \$216.3 million notional amount of forward currency contracts to hedge the foreign currency risk associated with the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. During 2009, we terminated these hedges due in part to the improbability of the original forecasted transactions occurring during the time period originally anticipated and, for those transactions still anticipated to occur as originally forecasted, to reduce our counterparty exposure. We recognized a gain of \$56.3 million on the termination of these hedges, \$42.0 million of which was recognized in other comprehensive income and \$14.3 million in earnings. The debt associated with this hedge continues to be outstanding as of December 31, 2009.

We previously owned principal protected equity linked trust certificates that contained an embedded derivative with a notional amount of \$50.0 million as of December 31, 2008. This embedded derivative represented forward contracts that were accounted for as cash flow hedges. The purpose of these forward contracts was to hedge the risk of changes in cash flows related to the anticipated purchase of certain equity securities. The equity linked trust certificates were sold during 2009.

For the years ended December 31, 2009 and 2008, we reclassified \$12.3 million and \$0.6 million, respectively, of net gains into earnings as a result of the discontinuance of cash flow hedges due to the improbability of the original forecasted transactions occurring during the time period originally anticipated. During 2009 and 2008, no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness.

As of December 31, 2009, we expect to amortize approximately \$28.5 million of net deferred gains on derivative instruments during the next twelve months. This amount will be reclassified from accumulated other comprehensive income into earnings and reported on the same income statement line item as the hedged item. The income statement line items that will be affected by this amortization are net investment income, other income, and/or interest and debt expense. The estimated amortization includes the impact of certain derivative contracts that have not yet been terminated as of December 31, 2009. Fluctuations in fair values of these derivatives between December 31, 2009 and the date of termination will vary our projected amortization. Amounts that will be reclassified from accumulated other comprehensive income into earnings to offset the earnings impact of foreign currency translation of hedged items are not estimable.

As of December 31, 2009, we are hedging the variability of future cash flows associated with forecasted transactions through the year 2038.

## Fair Value Hedges

As of December 31, 2009 and 2008, we had \$174.0 million notional amount of receive variable, pay fixed interest rate swaps to hedge the changes in fair value of certain fixed rate securities held. These swaps effectively convert the associated fixed rate securities into floating rate securities, which are used to fund our floating rate long-term debt. For the year ended December 31, 2009, the \$15.3 million loss on the hedged fixed maturity securities attributable to the hedged benchmark interest rate was offset by a gain of \$15.3 million on the related interest rate swaps.

For the years ended December 31, 2009 and 2008, there was no material ineffectiveness related to our fair value hedges, and no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness. There were no instances wherein we discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

## Derivatives Not Designated as Hedging Instruments

We have an embedded derivative in a modified coinsurance arrangement for which we include in our realized investment gains and losses a calculation intended to estimate the value of the option of our reinsurance counterparty to cancel the reinsurance contract with us. However, neither party can unilaterally terminate the reinsurance agreement except in extreme circumstances resulting from regulatory supervision, delinquency proceedings, or other direct regulatory action. Cash settlements or collateral related to this embedded derivative are not required at any time during the reinsurance contract or at termination of the reinsurance contract. There are no credit-related counterparty triggers, and any accumulated embedded derivative gain or loss reduces to zero over time as the reinsured business winds down.

## Locations and Amounts of Derivative Financial Instruments

The following table summarizes the location and fair values of derivative financial instruments, as reported in our consolidated balance sheets at December 31, 2009.

(in millions of dollars)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Designated as Hedging Instruments</b>				
Interest Rate Swaps	Other L-T Investments	\$81.1	Other Liabilities	\$ 17.0
Foreign Exchange Contracts	Other L-T Investments	—	Other Liabilities	127.6
<b>Total</b>		<b>\$81.1</b>		<b>\$144.6</b>
<b>Not Designated as Hedging Instruments</b>				
Embedded Derivative in Modified Coinsurance Arrangement			Other Liabilities	\$117.4

The following table summarizes the location of and gains and losses on derivative financial instruments designated as cash flow hedging instruments, as reported in our consolidated statements of income and consolidated statements of comprehensive income for the year ended December 31, 2009.

(in millions of dollars)	Year Ended December 31, 2009		
	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)
Interest Rate Swaps	\$ 87.7	\$ 24.9 <sup>(1)</sup>	\$ —
Interest Rate Swaps	—	8.1 <sup>(2)</sup>	—
Interest Rate Swaps	—	(0.1) <sup>(4)</sup>	—
Foreign Exchange Contracts	(2.1)	(2.8) <sup>(1)</sup>	—
Foreign Exchange Contracts	(83.1)	(73.4) <sup>(2)</sup>	(2.0) <sup>(2)</sup>
Foreign Exchange Contracts	42.0	1.7 <sup>(3)</sup>	14.3 <sup>(2)</sup>
<b>Total</b>	<b>\$ 44.5</b>	<b>\$(41.6)</b>	<b>\$12.3</b>

(1) Gain (loss) recognized in net investment income

(2) Gain (loss) recognized in net realized investment gain (loss)

(3) Gain recognized in interest and debt expense

(4) Loss recognized in other income

The following table summarizes the location of and gain on our embedded derivative in a modified coinsurance arrangement, as reported in our consolidated statements of income.

(in millions of dollars)	Year Ended December 31, 2009
Gain Recognized in Net Realized Investment Gain (Loss)	\$243.1

## Note 6. Liability for Unpaid Claims and Claim Adjustment Expenses

Changes in the liability for unpaid claims and claim adjustment expenses are as follows:

(in millions of dollars)	2009	2008	2007
<b>Balance at January 1</b>	<b>\$24,419.0</b>	\$24,790.0	\$24,324.4
Less Reinsurance Recoverable	2,226.3	2,249.8	2,257.3
Net Balance at January 1	22,192.7	22,540.2	22,067.1
Acquisition or Recapture of Business—Note 12	—	44.2	204.3
Incurred Related to			
Current Year	4,433.3	4,569.4	4,836.9
Prior Years			
Interest	1,285.4	1,281.2	1,199.9
Incurred for Claim Reassessment Process	—	—	65.8
All Other Incurred	(34.7)	144.7	174.3
Foreign Currency	206.7	(697.0)	33.7
Total Incurred	5,890.7	5,298.3	6,310.6
Paid Related to			
Current Year	(1,451.6)	(1,412.8)	(1,460.5)
Prior Years	(4,225.4)	(4,277.2)	(4,581.3)
Total Paid	(5,677.0)	(5,690.0)	(6,041.8)
Net Balance at December 31	22,406.4	22,192.7	22,540.2
Plus Reinsurance Recoverable	2,179.3	2,226.3	2,249.8
<b>Balance at December 31</b>	<b>\$24,585.7</b>	\$24,419.0	\$24,790.0

The majority of the net balances are related to disability claims with long-tail payouts on which interest earned on assets backing liabilities is an integral part of pricing and reserving. Interest accrued on prior year reserves has been calculated on the opening reserve balance less one-half year's cash payments at our average reserve discount rate used during 2009, 2008, and 2007.

Our "Incurred Related to Prior Years" for 2007 includes adjustments to reserves for our claim reassessment process. We entered into settlement agreements with various state insurance regulators during 2004 and 2005. In connection with these settlement agreements, we increased our disability claim reserves \$65.8 million in 2007 to reflect our revised estimate for costs associated with the claim reassessment process. "Paid Related to Prior Years" includes \$248.0 million in 2007 for these reserve charges.

"Incurred Related to Prior Years—All Other Incurred" declined in 2009 relative to the prior two years. The decrease relates primarily to an increased rate of claim recoveries for our group long-term disability and individual disability—recently issued lines of business in Unum US and in our Individual Disability—Closed Block segment. Claim resolution rates are very sensitive to operational and environmental changes and can be volatile over short periods of time. During 2009, we continued to improve the operating effectiveness of our Unum US segment and Individual Disability—Closed Block segment claims management performance. Our claims management performance during 2009 for Unum US group long-term disability exceeded our long-term assumptions in regard to claim resolution rates. For the Unum US individual disability—recently issued line of business and the Individual Disability—Closed Block segment, the claims management performance in 2009 improved relative to 2008. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period, both favorably and unfavorably.

A reconciliation of policy and contract benefits and reserves for future policy and contract benefits as reported in our consolidated balance sheets to the liability for unpaid claims and claim adjustment expenses is as follows:

(in millions of dollars)	December 31		
	2009	2008	2007
Policy and Contract Benefits	\$ 1,736.9	\$ 1,769.5	\$ 1,979.7
Reserves for Future Policy and Contract Benefits	37,740.8	34,581.5	35,828.0
<b>Total</b>	<b>39,477.7</b>	36,351.0	37,807.7
Less:			
Life Reserves for Future Policy and Contract Benefits	7,247.5	7,128.4	6,937.2
Accident and Health Active Life Reserves	5,999.8	5,606.7	5,221.2
Unrealized Adjustment to Reserves for Future Policy and Contract Benefits	1,644.7	(803.1)	859.3
<b>Liability for Unpaid Claims and Claim Adjustment Expenses</b>	<b>\$24,585.7</b>	\$24,419.0	\$24,790.0

The unrealized adjustment to reserves for future policy and contract benefits reflects the changes that would be necessary to policyholder liabilities if the unrealized investment gains and losses related to the available-for-sale securities had been realized. Changes in these adjustments are reported as a component of other comprehensive income or loss.

## Note 7. Income Tax

Total income tax expense (benefit) is allocated as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Income from Continuing Operations	\$ 439.7	\$ 270.8	\$ 324.8
Income from Discontinued Operations	—	—	10.9
Stockholders' Equity—Additional Paid-in Capital Stock-Based Compensation	1.5	(0.6)	(5.8)
Stockholders' Equity—Accumulated Other Comprehensive Income (Loss)			
Change in Net Unrealized Gains and Losses on Securities			
Not Other-Than-Temporarily Impaired	1,454.9	(1,214.7)	(134.4)
Change in Net Unrealized Gains and Losses on Securities			
Other-Than-Temporarily Impaired	1.6	—	—
Change in Net Gain on Cash Flow Hedges	(45.3)	139.0	(6.0)
Change in Adjustment to Reserves for Future Policy and Contract Benefits, Net of Reinsurance and Other	(816.6)	578.1	34.0
Change in Unrecognized Pension and Postretirement Benefit Costs	42.0	(112.4)	16.7
Stockholders' Equity—Retained Earnings			
Adoption of ASC 320 Update—Note 1	7.7	—	—
Adoption of ASC 944 Update—Note 1	—	—	(232.9)
Adoption of ASC 740 Update—Note 1	—	—	(22.7)
<b>Total</b>	<b>\$1,085.5</b>	\$ (339.8)	\$ (15.4)

A reconciliation of the income tax expense (benefit) attributable to income from continuing operations before income tax, computed at U.S. federal statutory tax rates, to the income tax expense (benefit) as included in our consolidated statements of income, is as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Statutory Income Tax	35.0%	35.0%	35.0%
Foreign Items	(0.8)	(2.0)	(1.2)
Other Items, Net	(0.2)	(0.1)	(1.2)
<b>Effective Tax</b>	<b>34.0%</b>	32.9%	32.6%

Our deferred income tax asset and liability consists of the following:

(in millions of dollars)	December 31	
	2009	2008
<b>Deferred Tax Liability</b>		
Deferred Acquisition Costs	\$309.5	\$ 297.9
Unrealized Gains and Losses	382.5	—
Other	145.0	99.5
Gross Deferred Tax Liability	837.0	397.4
<b>Deferred Tax Asset</b>		
Invested Assets	329.8	349.4
Unrealized Gains and Losses	—	212.0
Employee Benefits	210.9	233.4
Other	27.3	45.5
Gross Deferred Tax Asset	568.0	840.3
Less Valuation Allowance	4.2	4.1
Net Deferred Tax Asset	563.8	836.2
<b>Total Net Deferred Tax (Asset) Liability</b>	<b>\$273.2</b>	<b>\$(438.8)</b>

Our consolidated statements of income include amounts subject to both domestic and foreign taxation. The income and related tax expense (benefit) are as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Income Before Tax			
United States—Federal	\$1,065.2	\$ 531.3	\$ 703.9
Foreign	227.1	292.7	311.1
<b>Total</b>	<b>\$1,292.3</b>	<b>\$ 824.0</b>	<b>\$1,015.0</b>
Current Tax Expense			
United States—Federal	\$ 283.7	\$ 297.2	\$ 214.0
Foreign	94.2	43.7	72.9
<b>Total</b>	<b>377.9</b>	<b>340.9</b>	<b>286.9</b>
Deferred Tax Expense (Benefit)			
United States—Federal	91.4	(106.2)	38.6
Foreign	(29.6)	36.1	10.2
<b>Total</b>	<b>61.8</b>	<b>(70.1)</b>	<b>48.8</b>
<b>Total</b>	<b>\$ 439.7</b>	<b>\$ 270.8</b>	<b>\$ 335.7</b>

During 2007, the U.K. enacted a tax rate decrease from 30 percent to 28 percent. The tax benefit recognized in 2007 operations as a result of this decrease was \$1.7 million. We consider the unremitted earnings of our foreign operations to be permanently invested. The determination of a tax liability related to these earnings is not practicable.

The cumulative effect of applying the provisions of the accounting interpretation, now included in ASC 740, which clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements resulted in a \$22.7 million decrease in our liability for unrecognized tax benefits, net of associated deferred tax assets, as of January 1, 2007. Our consolidated statements of income include the following changes in unrecognized tax benefits:

(in millions of dollars)	December 31	
	2009	2008
<b>Balance at Beginning of Year</b>	<b>\$ 149.8</b>	<b>\$ 161.0</b>
Tax Positions Related to Prior Years		
Additions	8.5	0.3
Subtractions	(11.5)	(11.5)
<b>Balance at End of Year</b>	<b>146.8</b>	<b>149.8</b>
Less Tax Attributable to Temporary Items Included Above	(131.6)	(134.6)
<b>Total Unrecognized Tax Benefits that if Recognized Would Affect the Effective Tax Rate</b>	<b>\$ 15.2</b>	<b>\$ 15.2</b>

Included in the balance at December 31, 2009 and 2008 are \$131.6 million and \$134.6 million, respectively, of unrecognized tax benefits for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Other than potential interest and penalties, the disallowance of the shorter deductibility period would not affect our results of operations but would accelerate the payment of cash to the taxing authority to an earlier period.

We recognize interest expense and penalties, if applicable, related to unrecognized tax benefits in tax expense net of federal income tax. The total amounts of accrued interest and penalties in our consolidated balance sheets as of December 31, 2009 and 2008 are \$19.9 million and \$13.4 million, respectively. We recognized interest related to unrecognized tax expense in our consolidated statements of income of \$6.5 million, \$5.9 million, and \$2.0 million during 2009, 2008, and 2007, respectively. There were no changes to our uncertain tax positions as a result of settlements or lapses in statutes of limitations during 2009 or 2008.

We file federal and state income tax returns in the United States and in foreign jurisdictions. We are under continuous examination by the Internal Revenue Service (IRS) with regard to our U.S. federal income tax returns. The current IRS examination covers our tax years 2005 and 2006. During 2008, the IRS completed its examination of tax years 2002 through 2004 and issued its revenue agent's report (RAR). We filed a protest to the RAR in 2008 with respect to all significant adverse proposed adjustments.

During 2009, we had an appeals conference with the IRS with respect to our appeal of IRS audit adjustments for the years 1999 to 2004. Though we have not yet reached a final settlement with the IRS for these years, it is reasonably possible that this appeal will be resolved in whole or in part within 12 months and that statutes of limitations may expire in multiple jurisdictions within that same period. As a result, it is reasonably possible that our liability for unrecognized tax benefits could decrease within 12 months by \$0 to \$40.0 million. We believe sufficient provision has been made for all uncertain tax positions and that any adjustments by tax authorities with respect to such positions would not have a material adverse effect on our financial position, liquidity, or results of operations.

Tax years subsequent to 2006 remain subject to examination by tax authorities in the U.S. Tax years subsequent to 2007 remain subject to examination in major foreign jurisdictions. We believe sufficient provision has been made for all proposed and potential adjustments for years that are not closed by the statute of limitations in all major tax jurisdictions and that any such adjustments would not have a material adverse effect on our financial position, liquidity, or results of operations. However, it is possible that the resolution of income tax matters could produce quarterly volatility in our results of operations in future periods.

Included in 2009 operating results is a refund of interest of \$0.3 million before tax and \$0.2 million after tax attributable to tax year 1998. Included in 2008 operating results is a refund of interest of \$7.6 million before tax and \$4.9 million after tax primarily attributable to tax years 1986 through 1996.

As of December 31, 2009, we had no net operating loss carryforward in the U.S. We held a valuation allowance of \$4.2 million related to basis differences in foreign subsidiaries and net operating loss carryforwards in foreign jurisdictions because, in our judgment, we will most likely not realize a tax benefit for these amounts. The \$0.1 million increase in the valuation allowance during 2009 is due to the fluctuation in the British pound sterling to dollar exchange rate.

Total income taxes paid during 2009, 2008, and 2007 were \$381.6 million, \$369.0 million, and \$189.9 million, respectively.

## Note 8. Debt

Long-term and short-term debt consists of the following:

(in millions of dollars)	December 31	
	2009	2008
Senior Secured Notes, variable due 2037, callable at or above par	\$ 692.7	\$ 740.7
Senior Secured Notes, variable due 2036, callable at or above par	92.5	102.5
Notes @ 7.375% due 2032, callable at or above par	39.5	39.5
Notes @ 6.75% due 2028, callable at or above par	165.8	166.4
Notes @ 7.25% due 2028, callable at or above par	200.0	200.0
Notes @ 7.125% due 2016, callable at or above par	350.0	—
Notes @ 6.85%, due 2015, callable at or above par	296.7	296.7
Notes @ 7.625% due 2011, callable at or above par	225.1	225.1
Notes @ 7.0% due 2018, non-callable	200.0	200.0
Medium-term Notes @ 7.0% to 7.2% due 2023 to 2028, non-callable	60.8	62.0
Junior Subordinated Debt Securities @ 7.405% due 2038	226.5	226.5
<b>Long-term Debt</b>	<b>2,549.6</b>	<b>2,259.4</b>
Notes @ 5.859% due 2009	—	132.2
Repurchase Agreements, Weighted Average @ 2.71% due 2009	—	58.3
<b>Short-term Debt</b>	<b>—</b>	<b>190.5</b>
<b>Total</b>	<b>\$2,549.6</b>	<b>\$2,449.9</b>

Collateralized debt, which consists of the senior secured notes, ranks highest in priority, followed by unsecured notes, which consists of notes and medium-term notes, followed by junior subordinated debt securities. The junior subordinated debt securities due 2038 are callable under limited, specified circumstances. The remaining callable debt may be redeemed, in whole or in part, at any time.

The aggregate contractual principal maturities are \$225.1 million in 2011 and \$2,324.7 million in 2015 and thereafter.

## Senior Secured Notes

In 2007, Northwind Holdings, LLC (Northwind Holdings), a wholly-owned subsidiary of Unum Group, issued \$800.0 million of insured, senior, secured notes due 2037 (the Northwind notes) in a private offering. The Northwind notes bear interest at a floating rate equal to the three-month LIBOR plus 0.78%.

Northwind Holdings' ability to meet its obligations to pay principal, interest, and other amounts due on the Northwind notes will be dependent principally on its receipt of dividends from Northwind Reinsurance Company (Northwind Re), the sole subsidiary of Northwind Holdings. Northwind Re reinsured the risks attributable to specified individual disability insurance policies issued by or reinsured by Provident Life and Accident Insurance Company, Unum Life Insurance Company of America (Unum America), and The Paul Revere Life Insurance Company (collectively, the ceding insurers) pursuant to separate reinsurance agreements between Northwind Re and each of the ceding insurers. The ability of Northwind Re to pay dividends to Northwind Holdings will depend on its satisfaction of applicable regulatory requirements and the performance of the reinsured policies.

Recourse for the payment of principal, interest, and other amounts due on the Northwind notes is limited to the collateral for the Northwind notes and the other assets, if any, of Northwind Holdings. The collateral consists of a first priority, perfected security interest in (a) the debt service coverage account (Northwind DSCA) that Northwind Holdings is required to maintain in accordance with the indenture pursuant to which the Northwind notes were issued (the Northwind indenture), (b) the capital stock of Northwind Re and the dividends and distributions on such capital stock, and (c) Northwind Holdings' rights under the transaction documents related to the Northwind notes to which Northwind Holdings is a party. At December 31, 2009 the amount in the Northwind DSCA was \$11.9 million. None of Unum Group, the ceding insurers, Northwind Re, or any other affiliate of Northwind Holdings is an obligor or guarantor with respect to the Northwind notes.

Northwind Holdings is required to repay a portion of the outstanding principal under the Northwind notes at par on the quarterly scheduled payment dates under the Northwind notes in an amount equal to the lesser of (i) a targeted amortization amount as defined in the Northwind indenture and (ii) the amount of the remaining available funds in the Northwind DSCA minus an amount equal to the minimum balance that is required to be maintained in the Northwind DSCA under the Northwind indenture, provided that Northwind Holdings has sufficient funds available to pay its other expenses, including interest payments on the Northwind notes, and to maintain the minimum balance in the Northwind DSCA as required under the Northwind indenture. During 2009 and 2008, Northwind Holdings made principal payments of \$48.0 million and \$59.3 million, respectively, on the Northwind notes.

In 2006, Tailwind Holdings, LLC (Tailwind Holdings), a wholly-owned subsidiary of Unum Group, issued \$130.0 million of insured, senior, secured notes due 2036 (the Tailwind notes) in a private offering. The Tailwind notes bear interest at a floating rate equal to the three-month LIBOR plus 0.35%.

Tailwind Holdings' ability to meet its obligations to pay principal, interest, and other amounts due on the Tailwind notes will be dependent principally on its receipt of dividends from Tailwind Reinsurance Company (Tailwind Re), the sole subsidiary of Tailwind Holdings. Tailwind Re reinsured Unum America's liability with respect to certain specified long-term disability claims incurred between January 1, 1999 and December 31, 2001 that were in payment status on January 1, 2006 pursuant to a reinsurance agreement between Tailwind Re and Unum America. The ability of Tailwind Re to pay dividends to Tailwind Holdings will depend on its satisfaction of applicable regulatory requirements and the performance of the reinsured claims.

Recourse for the payment of principal, interest, and other amounts due on the Tailwind notes is limited to the collateral for the Tailwind notes and the other assets, if any, of Tailwind Holdings. The collateral consists of a first priority, perfected security interest in (a) the debt service coverage account (Tailwind DSCA) that Tailwind Re is required to maintain in accordance with the indenture pursuant to which the Tailwind notes were issued (the Tailwind indenture), (b) the capital stock of Tailwind Re and the dividends and distributions on such capital stock, and (c) Tailwind Holdings' rights under the transaction documents related to the Tailwind notes to which Tailwind Holdings is a party. At December 31, 2009 the amount in the Tailwind DSCA was \$12.7 million. None of Unum Group, Unum America, Tailwind Re, or any other affiliate of Tailwind Holdings is an obligor or guarantor with respect to the Tailwind notes.

Tailwind Holdings is required to repay a portion of the outstanding principal under the Tailwind notes at par on the quarterly scheduled payment dates under the Tailwind notes in an amount equal to the lesser of (i) a targeted amortization amount as defined in the Tailwind indenture and (ii) the amount of the remaining available funds in the Tailwind DSCA minus an amount equal to the minimum balance that is required to be maintained in the Tailwind DSCA under the Tailwind indenture, provided that Tailwind Holdings has sufficient funds available to pay its other expenses, including interest payments on the Tailwind notes, and to maintain the minimum balance in the Tailwind DSCA as required under the Tailwind indenture. During 2009, 2008, and 2007, Tailwind Holdings made principal payments of \$10.0 million, \$10.0 million, and \$17.5 million, respectively, on the Tailwind notes.

## Unsecured Notes

In September 2009, we issued \$350.0 million of unsecured senior notes in a public offering. In 2009, we purchased and retired \$1.2 million aggregate principal of our 7.19% medium-term notes due 2028 and \$0.6 million aggregate principal of our 6.75% notes due 2028.

In 2008 and 2007, \$36.6 million and \$34.5 million, respectively, of the 6.85% senior debentures due 2015 were redeemed. These debentures were issued by UnumProvident Finance Company plc, a wholly-owned subsidiary of Unum Group, and are fully and unconditionally guaranteed by Unum Group.

In 2007, we purchased and retired \$99.9 million aggregate principal amount of the 7.625% notes due 2011; \$210.5 million aggregate principal amount of the 7.375% notes due 2032; and \$83.6 million of our outstanding 6.75% notes scheduled to mature in 2028. We also called and retired all \$150.0 million principal amount of our outstanding 7.25% notes scheduled to mature in 2032.

## Adjustable Conversion-Rate Equity Security Units

In 2004, Unum Group issued 12.0 million 8.25% adjustable conversion-rate equity security units (units) in a private offering for \$300.0 million. We subsequently registered the privately placed securities for resale by the private investors. Each unit had a stated amount of \$25 and consisted of (a) a contract pursuant to which the holder agrees to purchase, for \$25, shares of Unum Group common stock on May 15, 2007 and which entitled the holder to contract adjustment payments at the annual rate of 3.165 percent, payable quarterly, and (b) a 1/40 or 2.5 percent ownership interest in a senior note issued by Unum Group due May 15, 2009 with a principal amount of \$1,000, on which we paid interest at the initial annual rate of 5.085 percent, payable quarterly. The scheduled remarketing of the senior note element of these units occurred in February 2007, as stipulated by the terms of the original offering, and we reset the interest rate on \$300.0 million of senior notes due May 15, 2009 to 5.859%. We purchased \$150.0 million of the senior notes in the remarketing which were subsequently retired. In May 2007, we settled the purchase contract element of the units by issuing 17.7 million shares of common stock. We received proceeds of approximately \$300.0 million from the transaction.

## Junior Subordinated Debt Securities

In 1998, Provident Financing Trust I (the trust) issued \$300.0 million of 7.405% capital securities in a public offering. These capital securities, which mature in 2038, are fully and unconditionally guaranteed by Unum Group, have a liquidation value of \$1,000 per capital security, and have a mandatory redemption feature under certain circumstances. Unum Group issued 7.405% junior subordinated deferrable interest debentures to the trust in connection with the capital securities offering. The debentures mature in 2038. The sole assets of the trust are the junior subordinated debt securities. In 2007, \$23.5 million of these debentures were redeemed.

## Short-term Debt

In 2009, we purchased and retired the remaining \$132.2 million of our outstanding 5.859% notes and repaid \$58.3 million of reverse repurchase agreements outstanding at December 31, 2008. In 2008, we purchased and retired \$17.8 million of our outstanding 5.859% notes and \$175.0 million of our 5.997% notes.

## Interest and Debt Expense

Interest paid on long-term and short-term debt and related securities during 2009, 2008, and 2007 was \$122.0 million, \$157.3 million, and \$184.1 million, respectively.

The cost related to early retirement of debt during 2008 and 2007 decreased income approximately \$0.4 million and \$58.8 million, respectively, before tax, or \$0.3 million and \$38.3 million, respectively, after tax.

## Shelf Registration

We have a shelf registration, which became effective in December 2008, with the Securities and Exchange Commission to issue various types of securities, including common stock, preferred stock, debt securities, depository shares, stock purchase contracts, units and warrants, or preferred securities of wholly-owned finance trusts. The shelf registration enables us to raise funds from the offering of any individual security covered by the shelf registration as well as any combination thereof, subject to market conditions and our capital needs.

## Note 9. Pensions and Other Postretirement Benefits

We sponsor several defined benefit pension and other postretirement benefit (OPEB) plans for our employees, including non-qualified pension plans. The U.S. plans comprise the majority of our total benefit obligation and benefit cost. We maintain a separate defined benefit plan for eligible employees in our U.K. operation. The U.K. defined benefit pension plan was closed to new entrants on December 31, 2002.

The following tables provide the changes in the benefit obligation and fair value of plan assets and statements of the funded status of the plans.

(in millions of dollars)	Pension Benefits					
	U.S. Plans		Non U.S. Plans		OPEB	
	2009	2008	2009	2008	2009	2008
<b>Change in Benefit Obligation</b>						
<b>Benefit Obligation at Beginning of Year</b>	<b>\$1,009.3</b>	\$ 904.8	<b>\$127.0</b>	\$187.9	<b>\$192.6</b>	\$189.4
Service Cost	29.6	28.7	4.9	7.8	2.9	3.3
Interest Cost	64.0	58.2	8.7	10.3	11.3	11.5
Plan Participant Contributions	—	—	—	—	3.2	3.2
Actuarial (Gain) Loss	44.7	37.7	24.1	(28.8)	(0.6)	(0.9)
Benefits and Expenses Paid	(24.0)	(20.1)	(5.8)	(3.9)	(14.4)	(13.9)
Plan Amendments	—	—	—	—	(4.4)	—
Prior Service Cost	—	—	0.2	—	—	—
Change in Foreign Exchange Rates	—	—	14.4	(46.3)	—	—
<b>Benefit Obligation at End of Year</b>	<b>\$1,123.6</b>	\$1,009.3	<b>\$173.5</b>	\$127.0	<b>\$190.6</b>	\$192.6
<b>Accumulated Benefit Obligation at</b>						
<b>December 31</b>	<b>\$1,031.6</b>	\$ 952.2	<b>\$163.4</b>	\$110.8	N/A	N/A
<b>Change in Fair Value of Plan Assets</b>						
<b>Fair Value of Plan Assets</b>						
<b>at Beginning of Year</b>	<b>\$ 658.1</b>	\$ 784.3	<b>\$120.1</b>	\$186.2	<b>\$ 12.0</b>	\$ 12.0
Actual Return on Plan Assets	180.2	(239.7)	27.5	(25.2)	0.7	0.3
Employer Contributions	74.2	133.6	5.5	7.3	10.4	10.4
Plan Participant Contributions	—	—	—	—	3.2	3.2
Benefits and Expenses Paid	(24.0)	(20.1)	(5.8)	(3.9)	(14.4)	(13.9)
Change in Foreign Exchange Rates	—	—	13.5	(44.3)	—	—
<b>Fair Value of Plan Assets at End of Year</b>	<b>\$ 888.5</b>	\$ 658.1	<b>\$160.8</b>	\$120.1	<b>\$ 11.9</b>	\$ 12.0
<b>Unfunded Liability</b>	<b>\$ 235.1</b>	\$ 351.2	<b>\$ 12.7</b>	\$ 6.9	<b>\$178.7</b>	\$180.6

The amounts recognized in our consolidated balance sheets for our pension and OPEB plans at December 31, 2009 and 2008 are as follows:

(in millions of dollars)	Pension Benefits					
	U.S. Plans		Non U.S. Plans		OPEB	
	2009	2008	2009	2008	2009	2008
Current Liability	\$ 4.0	\$ 3.5	\$ —	\$ —	\$ 14.0	\$ 14.3
Noncurrent Liability	231.1	347.7	12.7	6.9	164.7	166.3
Unfunded Liability	\$ 235.1	\$ 351.2	\$ 12.7	\$ 6.9	\$ 178.7	\$ 180.6
Unrecognized Pension and Postretirement Benefit Costs						
Net Actuarial Loss	\$(454.5)	\$(578.5)	\$(54.8)	\$(47.2)	\$ (5.6)	\$ (6.2)
Prior Service Credit (Cost)	0.8	1.4	(0.2)	—	10.1	8.5
	(453.7)	(577.1)	(55.0)	(47.2)	4.5	2.3
Deferred Income Tax Asset (Liability)	159.6	203.1	15.5	13.2	(1.6)	(0.8)
Total Included in Accumulated Other Comprehensive Income (Loss)	\$ (294.1)	\$(374.0)	\$ (39.5)	\$(34.0)	\$ 2.9	\$ 1.5

The following table provides the changes recognized in other comprehensive income for the years ended December 31, 2009 and 2008.

(in millions of dollars)	Pension Benefits					
	U.S. Plans		Non U.S. Plans		OPEB	
	2009	2008	2009	2008	2009	2008
<b>Accumulated Other Comprehensive Income (Loss) at Beginning of Year</b>	\$ (374.0)	\$(161.9)	\$ (34.0)	\$(40.0)	\$ 1.5	\$ 3.4
Net Actuarial Loss						
Amortization	41.1	13.9	2.4	2.3	—	—
All Other Changes	82.8	(337.2)	(10.2)	5.9	0.6	0.5
Prior Service Credit						
Amortization	(0.5)	(2.2)	—	—	(2.8)	(3.4)
All Other Changes	—	—	—	—	4.4	—
Transition Asset						
Amortization	—	—	—	(0.2)	—	—
Change in Deferred Income Tax Asset (Liability)	(43.5)	113.4	2.3	(2.0)	(0.8)	1.0
<b>Accumulated Other Comprehensive Income (Loss) at End of Year</b>	\$ (294.1)	\$(374.0)	\$ (39.5)	\$(34.0)	\$ 2.9	\$ 1.5

## Plan Assets

The objective of our pension and OPEB plans is to maximize long-term return, within acceptable risk levels, in a manner that is consistent with the fiduciary standards of the Employee Retirement Income Security Act (ERISA), while maintaining sufficient liquidity to pay current benefits and expenses.

The investment portfolio for our U.S. pension plans contain a diversified blend of domestic and international large cap, mid cap, and small cap equity securities, U.S. government and corporate fixed income securities, private equity funds of funds, and hedge funds of funds. The domestic large cap, mid cap, and small cap equity securities are mainly comprised of equity index funds that are designed to track the Standard & Poor's (S&P) 500, S&P 400 Mid Cap Index, and Russell 2000 indices, respectively. International equity investments and emerging market equity investments consist of equity index funds that track the Morgan Stanley Capital International (MSCI) Europe Australasia Far East Index and the MSCI Emerging Markets Index, respectively. Corporate fixed income securities consist of investment-grade and below-investment-grade corporate bonds. Alternative investments, which include private equity funds of funds and hedge funds of funds, utilize proprietary strategies that tend to have a low correlation to the U.S. stock market. The target allocations for invested assets are 60 percent equity securities, 30 percent fixed income securities, and 10 percent alternative investments. Prohibited investments include, but are not limited to, unlisted securities, futures contracts, options, short sales, and investments in securities issued by the Company or its affiliates.

Assets for our U.K. pension plan are primarily invested in a pooled fund consisting of diversified growth assets. The remaining assets in the U.K. plan are invested in a fixed-interest U.K. corporate bond fund and an index-linked U.K. government bond fund. The diversified growth fund is designed to generate a return that matches the U.K. Retail Price Index plus five percent over a five to seven year period. This fund is comprised primarily of domestic (U.K.) and international equity securities, emerging market fixed income securities, and a blend of investment-grade and below-investment-grade fixed income securities. Investment in fixed-interest U.K. corporate bonds is achieved through the ownership of a fund that primarily invests in corporate bonds with maturity dates greater than 10 years. Investment in U.K. index-linked bonds is achieved through ownership of a fund that traces the Financial Times Stock Exchange 5 year Index-linked Index. The target allocation for the assets is 60 percent equity securities and 40 percent fixed income securities. There are no categories of investments that are specifically prohibited by the U.K. plan, but there are general guidelines that ensure prudent investment action is taken. Such guidelines include the prevention of the plan from using derivatives for speculative purposes and limiting the concentration of risk in any one type of investment.

Assets for life insurance benefits payable to certain former retirees covered under the OPEB plan are invested in life insurance contracts issued by one of our insurance subsidiaries. The terms of these contracts are consistent in all material respects with those the subsidiary offers to unaffiliated parties that are similarly situated. There are no categories of investments specifically prohibited by the OPEB plan.

We believe our investment portfolios are well diversified by asset class and sector, with no potential risk concentrations in any one category.

The categorization of fair value measurements by input level for the invested assets in our U.S. pension plans is as follows:

(in millions of dollars)	December 31, 2009			Total
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Invested Assets</b>				
Equity Securities:				
U.S. Large Cap	\$ —	\$198.4	\$ —	\$198.4
U.S. Mid Cap	—	82.1	—	82.1
U.S. Small Cap	76.0	65.7	—	141.7
International	—	125.9	—	125.9
Emerging Markets	—	41.0	—	41.0
Fixed Income Securities:				
U.S. Government	68.1	—	—	68.1
Corporate	56.1	119.6	—	175.7
Alternative Investments:				
Private Equity Funds of Funds	—	—	8.2	8.2
Hedge Funds of Funds	—	—	37.8	37.8
Cash Equivalents	6.9	—	—	6.9
<b>Total</b>	<b>\$207.1</b>	<b>\$632.7</b>	<b>\$46.0</b>	<b>\$885.8</b>

Level 1 equity and fixed income securities consist of individual holdings and funds that are valued based on unadjusted quoted prices from active markets for identical securities. Level 2 equity and fixed income securities consist of funds that are valued based on the net asset value (NAV) of the underlying holdings.

Alternative investments are valued based on the NAV of the underlying holdings in a period ranging from one month to one quarter in arrears. We evaluate the need for adjustments to the NAV based on market conditions and discussions with fund managers in the period subsequent to the valuation date and prior to issuance of the financial statements. We made no adjustments to the NAV for 2009.

Changes in our U.S. pension plans' assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2009 are as follows:

(in millions of dollars)	Year Ended December 31, 2009					End of Year
	Beginning of Year	Unrealized Gains	Net Purchases	Level 3 Transfers		
				Into	Out of	
Private Equity Funds of Funds	\$ 4.7	\$1.9	\$1.6	\$ —	\$—	\$ 8.2
Hedge Funds of Funds	26.2	3.7	—	7.9	—	37.8
<b>Total</b>	<b>\$30.9</b>	<b>\$5.6</b>	<b>\$1.6</b>	<b>\$7.9</b>	<b>\$—</b>	<b>\$46.0</b>

The categorization of fair value measurements by input level for the assets in our U.K. pension plan is as follows:

(in millions of dollars)	December 31, 2009			Total
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Plan Assets</b>				
Diversified Growth Assets	\$ —	\$ 95.9	\$—	\$ 95.9
U.K. Fixed-interest Corporate Bonds	—	56.8	—	56.8
U.K. Index-linked Government Bonds	—	7.8	—	7.8
Cash Equivalents	0.3	—	—	0.3
<b>Total Plan Assets</b>	<b>\$0.3</b>	<b>\$160.5</b>	<b>\$—</b>	<b>\$160.8</b>

Level 2 assets consist of funds that are valued based on the NAV of the underlying holdings.

The categorization of fair value measurements by input level for the assets in our OPEB plan is as follows:

(in millions of dollars)	December 31, 2009			Total
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>				
Life Insurance Contracts	\$—	\$—	\$11.9	\$11.9

The fair value is represented by the actuarial present value of future cash flows of the contracts.

Changes in our OPEB plan assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2009 are as follows:

(in millions of dollars)	Year Ended December 31, 2009			
	Beginning of Year	Actual Return on Plan Assets	Net Benefits and Expenses Paid	End of Year
Life Insurance Contracts	\$12.0	\$0.7	\$(0.8)	\$11.9

## Measurement Assumptions

We use a December 31 measurement date for each of our plans. The weighted average assumptions used in the measurement of our benefit obligations as of December 31 and our net periodic benefit costs for the years ended December 31 are as follows:

	Pension Benefits				OPEB	
	U.S. Plans		Non U.S. Plans			
	2009	2008	2009	2008	2009	2008
<b>Benefit Obligations</b>						
Discount Rate	6.40%	6.40%	5.70%	6.40%	5.90%	6.10%
Rate of Compensation Increase	4.00%	4.70%	4.50%	5.10%	—	—
<b>Net Periodic Benefit Cost</b>						
Discount Rate	6.40%	6.50%	6.40%	5.80%	6.10%	6.30%
Expected Return on Plan Assets	7.50%	7.50%	7.20%	6.90%	5.75%	5.75%
Rate of Compensation Increase	4.00%	4.70%	5.10%	5.30%	—	—

We set the discount rate assumption annually for each of our retirement-related benefit plans at the measurement date to reflect the yield of a portfolio of high quality fixed income debt instruments matched against the projected cash flows for future benefits.

Our long-term rate of return on plan assets assumption is an estimate, based on statistical analysis, of the average annual assumed return that will be produced from the plan assets until current benefits are paid. Our expectations for the future investment returns of the asset categories were based on a combination of historical market performance and evaluations of investment forecasts obtained from external consultants and economists.

The methodology underlying the return assumption included the various elements of the expected return for each asset class such as long-term rates of return, volatility of returns, and the correlation of returns between various asset classes. The expected return for the total portfolio was calculated based on the plan's strategic asset allocation. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition.

The expected return assumption for the life insurance reserve for our OPEB plan was 5.75 percent, which was based on full investment in fixed income securities with an average book yield of 6.21 percent and 6.30 percent for 2009 and 2008, respectively.

Our rate of compensation increase assumption is generally based on periodic studies of compensation trends.

For measurement purposes at December 31, 2009 and 2008, the annual rate of increase in the per capita cost of covered postretirement health care benefits assumed for the next calendar year was 9.00 percent for benefits payable to retirees prior to Medicare eligibility and 9.80 percent for benefits payable to Medicare eligible retirees. The rate was assumed to change gradually to 5.00 percent by the end of 2018 and remain at that level thereafter.

The medical and dental premium used to determine the per retiree employer subsidy are capped. If the cap is not reached by the year 2015, the caps are then set equal to the year 2015 premium. Certain of the current retirees and all future retirees are subject to the cap.

## Net Periodic Benefit Cost

The following table provides the components of the net periodic benefit cost for the plans described above for the years ended December 31.

(in millions of dollars)	Pension Benefits								
	U.S. Plans			Non U.S. Plans			OPEB		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Service Cost	\$ 29.6	\$ 28.7	\$ 31.9	\$ 4.9	\$ 7.8	\$ 9.2	\$ 2.9	\$ 3.3	\$ 3.6
Interest Cost	64.0	58.2	54.2	8.7	10.3	9.7	11.3	11.5	11.0
Expected Return on Plan Assets	(52.8)	(59.7)	(58.5)	(9.4)	(12.0)	(12.2)	(0.7)	(0.7)	(0.7)
Amortization of:									
Net Actuarial Loss	41.1	13.9	19.2	2.4	2.3	3.0	—	—	—
Prior Service Credit	(0.5)	(2.2)	(3.1)	—	—	—	(2.8)	(3.4)	(3.8)
Transition Asset	—	—	—	—	(0.2)	(0.2)	—	—	—
Settlement Cost	—	—	—	—	—	0.3	—	—	—
Curtailment	—	—	0.2	—	—	—	—	—	—
<b>Total</b>	<b>\$ 81.4</b>	<b>\$ 38.9</b>	<b>\$ 43.9</b>	<b>\$ 6.6</b>	<b>\$ 8.2</b>	<b>\$ 9.8</b>	<b>\$ 10.7</b>	<b>\$ 10.7</b>	<b>\$ 10.1</b>

The 2007 settlement cost and curtailment loss shown in the preceding chart relate to pension plan benefits for employees of our former Canadian branch operation and our previously owned subsidiary GENEX. These benefits were either terminated or frozen.

A one percent increase or decrease in the assumed health care cost trend rate at December 31, 2009 would have increased (decreased) the service cost and interest cost by \$0.5 million and \$(0.4) million, respectively, and the postretirement benefit obligation by \$4.3 million and \$(3.5) million, respectively.

Our OPEB plan currently receives a subsidy from the federal government under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act). This act allows an employer to choose whether to coordinate prescription drug benefits under a retiree medical plan with the Medicare prescription drug benefit or to keep the company plan design as it is and receive a subsidy from the federal government. When the Medicare Act became effective in 2006, we initially elected to receive the subsidy from the federal government with plans to defer our coordination with the new prescription drug benefit until a later date. This anticipated change was reflected in the net periodic benefit cost. In 2009, we amended the plan design to stop the deferral of coordination of benefits and elected to continue receiving the existing subsidy from the federal government. This election resulted in a \$4.4 million prior service credit that will begin amortization in 2010. We received subsidy payments of \$1.2 million during each of 2009 and 2008. Our expected benefit payments in future years have been reduced by the amount of subsidy payments we expect to receive.

The unrecognized net actuarial loss, prior service credit, and transition asset included in accumulated other comprehensive income and expected to be amortized and included in net periodic pension cost during 2010 is \$31.8 million before tax and \$20.8 million after tax. The prior service credit expected to be amortized and included as a reduction to net periodic cost for our OPEB plan during 2010 is \$2.6 million before tax and \$1.7 million after tax.

## Benefit Payments

The following table provides expected benefit payments, which reflect expected future service, as appropriate.

(in millions of dollars)	Pension Benefits		OPEB		
	U.S. Plans	Non U.S. Plans	Gross	Subsidy Payments	Net
<b>Year</b>					
2010	\$ 23.9	\$ 6.6	\$16.5	\$ 1.7	\$14.8
2011	26.4	7.1	17.2	1.8	15.4
2012	29.6	7.6	17.6	2.0	15.6
2013	33.4	8.4	17.9	2.1	15.8
2014	38.2	9.2	17.9	2.3	15.6
2015–2019	282.6	64.8	88.3	13.8	74.5

## Funding Policy

The funding policy for our U.S. qualified defined benefit plan is to contribute annually an amount at least equal to the minimum annual contribution required under ERISA and other applicable laws, but generally not greater than the maximum amount that can be deducted for federal income tax purposes. We had no regulatory contribution requirements for 2009 and 2008; however, we elected to make voluntary contributions of \$70.0 million and \$130.0 million, respectively. We made a voluntary contribution of \$67.0 million to our U.S. qualified defined benefit pension plan in February 2010. We do not anticipate making any additional contributions during 2010. The funding policy for our U.S. non-qualified defined benefit pension plan is to contribute the amount of the benefit payments made during the year. We contribute to our U.K. plan in accordance with a schedule of contributions which requires us to contribute to the plan at the rate of at least 15.0 percent of employee salaries sufficient to meet the minimum funding requirement under U.K. legislation. We made contributions of \$5.5 million and \$7.3 million in 2009 and 2008, respectively, or approximately £3.5 million and £4.0 million. We expect to make contributions of £3.4 million during 2010.

Our OPEB plan represents a non-vested, non-guaranteed obligation, and current regulations do not require specific funding levels for these benefits, which are comprised of retiree life, medical, and dental benefits. It is our practice to use general assets to pay medical and dental claims as they come due in lieu of utilizing plan assets for the medical and dental benefit portions of our OPEB plan.

## Note 10. Stockholders' Equity and Earnings Per Common Share

### Common Stock

During 2007, Unum Group's board of directors authorized the repurchase of up to \$700.0 million of Unum Group common stock. In January 2008, we repurchased approximately 14.0 million shares for \$350.0 million, using an accelerated share repurchase agreement. Under the terms of the repurchase agreement, we were to receive, or be required to pay, a price adjustment based on the volume weighted average price of Unum Group common stock during the term of the agreement. Any price adjustment payable to us was to be settled in shares of Unum Group common stock. Any price adjustment we would have been required to pay was to 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 Unum Group common stock. The remaining 9.8 million shares settled on May 29, 2008, with the price adjustment resulting in the delivery to us of approximately 0.9 million additional shares.

During August 2008, we repurchased approximately 12.5 million shares for \$350.0 million, using an accelerated share repurchase agreement with terms similar to the earlier agreement. A 50 percent partial acceleration of the agreement, 6.25 million shares, occurred on October 7, 2008 and settled on October 10, 2008, with the price adjustment resulting in the delivery to us of approximately 1.0 million additional shares of Unum Group common stock. The remaining 6.25 million shares settled on October 14, 2008, with the price adjustment resulting in the delivery to us of approximately 1.0 million additional shares.

In total, we repurchased 29.9 million shares of Unum Group common stock under the share repurchase program. These shares are reflected as treasury stock in our consolidated balance sheets.

We settled the purchase contract element of the 2004 units in May 2007 by issuing 17.7 million shares of common stock. See Note 8 for further discussion.

### Preferred Stock

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.

### Earnings Per Common Share

Net income per common share is determined as follows:

(in millions of dollars, except share data)	Year Ended December 31		
	2009	2008	2007
Numerator			
<b>Net Income</b>	<b>\$852.6</b>	\$553.2	\$679.3
Denominator (000s)			
Weighted Average Common Shares—Basic	331,266.2	341,022.8	352,969.1
Dilution for the Purchase Contract Element of the Adjustable Conversion-Rate Equity Security Units	—	—	1,673.0
Dilution for Assumed Exercises of Stock Options and Nonvested Stock Awards	870.0	537.5	1,134.4
<b>Weighted Average Common Shares—Assuming Dilution</b>	<b>332,136.2</b>	341,560.3	355,776.5
Net Income Per Common Share			
Basic	\$ 2.57	\$ 1.62	\$ 1.92
Assuming Dilution	\$ 2.57	\$ 1.62	\$ 1.91

We use the treasury stock method to account for the effect of the purchase contract element of the units, outstanding stock options, nonvested stock awards, and performance restricted stock units 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 common stock during the period exceeds the threshold appreciation price of the purchase contract element of the units or the exercise price of the stock options, the grant price of the nonvested stock awards, and/or the threshold stock price of performance restricted stock units. For further discussion of the purchase contract element of the units and stock-based awards see Note 8 and Note 11, respectively.

The purchase contract element of the units issued in 2004 had a threshold appreciation price of \$16.95 per share. The outstanding stock options have exercise prices ranging from \$11.37 to \$58.56, the nonvested stock awards have grant prices ranging from \$10.59 to \$26.25, and the performance restricted stock units have a threshold stock price of \$26.00.

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 7.1 million, 8.3 million, and 6.2 million shares of common stock for the years ended December 31, 2009, 2008, and 2007, respectively.

## Note 11. Stock-Based Compensation

### Description of Stock Plans

Under the stock incentive plan of 2007, up to 35.00 million shares of common stock are available for awards to our employees, officers, consultants, and directors. Awards may be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and other stock-based awards. Each full value award, defined as any award other than a stock option or stock appreciation right, is counted as 2.7 shares.

The exercise price for stock options issued cannot be less than the fair market value of the underlying common stock as of the grant date. Stock options have a maximum term of ten years after the date of grant and generally vest after three years. At December 31, 2009, approximately 23.44 million shares were available for future grants.

Under the broad-based stock plan of 2002, up to 2.39 million shares of common stock were available for stock option awards to our employees, officers, consultants, and brokers, excluding certain senior officers and directors. The plan was terminated in February 2004 for purposes of any further grants. The stock options have a maximum term of ten years after the date of grant and generally vest after three years.

Under the broad-based stock plan of 2001, up to 2.00 million shares of common stock were available for stock option awards to our employees, officers, consultants, and brokers, excluding certain senior officers and directors. The plan was terminated in December 2007 for purposes of any further grants, other than reload grants, for which 20,000 shares were available at December 31, 2009. The stock options have a maximum term of ten years after the date of grant and generally vest after three years.

Under the stock plan of 1999, comprised of the Provident Companies, Inc. stock plan of 1999 and the UnumProvident Corporation stock plan of 1999, an aggregate of up to 17.50 million shares of common stock were available for awards to our employees, officers, brokers, and directors. Awards could be in the form of stock options, stock appreciation rights, stock awards, dividend equivalent awards, or any other right or interest relating to stock. The plan was terminated in May 2007 for purposes of any further grants, other than reload grants, for which 250,000 shares were available at December 31, 2009. Stock options have a maximum term of ten years after the date of grant and generally vest after three years.

Substantially all of our employees are eligible to participate in an employee stock purchase plan (ESPP). Under the plan, up to 3.46 million shares of common stock are authorized for issuance, of which approximately 1.23 million remain available for issuance at December 31, 2009. Stock may be purchased at the end of each financial quarter at a purchase price of 85 percent of the market price.

We issue new shares of common stock for nonvested stock grants, exercise of stock options, and purchase of ESPP shares.

## Nonvested Stock Awards

Nonvested share activity is summarized as follows:

	Shares (000s)	Weighted Average Grant Date Fair Value
<b>Nonvested at December 31, 2008</b>	1,488	\$22.77
Granted	1,763	12.32
Vested	(808)	21.62
Forfeited	(23)	15.14
<b>Nonvested at December 31, 2009</b>	<b>2,420</b>	<b>15.62</b>

Stock awards vest over a one to three year service period, beginning at the date of grant, and the compensation cost is recognized ratably during the vesting period. Compensation cost for stock awards subject to accelerated vesting upon retirement is recognized over the implicit service period. Forfeitable dividend equivalents on nonvested stock awards are accrued in the form of additional restricted stock units. The weighted average grant date fair values per share for nonvested stock awards granted during 2009, 2008, and 2007 were \$12.32, \$23.66, and \$21.99, respectively.

The total fair value of shares vested during 2009, 2008, and 2007 was \$17.5 million, \$11.3 million, and \$20.6 million, respectively.

At December 31, 2009, we had \$14.5 million of unrecognized compensation cost related to nonvested stock awards that will be recognized over a weighted average period of 1.0 year.

## Performance Restricted Stock Units (PRSUs)

PRSU activity is summarized as follows:

	Shares (000s)	Weighted Average Grant Date Fair Value
<b>PRSUs at December 31, 2008</b>	1,210	\$16.06
Dividends	24	15.95
Forfeited	(62)	16.05
<b>PRSUs at December 31, 2009</b>	<b>1,172</b>	<b>16.06</b>

In September 2007, we issued approximately 1.25 million PRSUs with a grant date fair value of \$15.99. Vesting for this grant is contingent upon meeting various company threshold performance and stock price conditions. Forfeitable dividend equivalents on PRSUs are accrued in the form of additional restricted stock units. The weighted average grant date fair values per share for PRSU grants and dividends during 2009, 2008, and 2007 were \$15.95, \$19.08, and \$16.02, respectively. All PRSUs outstanding at December 31, 2009 were nonvested.

At December 31, 2009, we had \$2.3 million of unrecognized compensation cost related to PRSUs that will be recognized over a weighted average period of 0.6 years. The PRSU expense and unrecognized compensation cost assume the performance goals are attained at 100 percent. Actual performance may result in zero to 100 percent of the units ultimately being earned. We use the accelerated method of amortization for recognizing compensation expense, which treats each of the three vesting tranches as a separate award over the expected life of the unit.

We estimated the fair value on the date of initial grant using the Monte-Carlo model. The following assumptions were used to value the grant:

- Expected volatility of 29 percent, based on our historical daily stock prices.
- Expected life of 4.4 years, which equals the maximum term.
- Expected dividend yield of 1.24 percent, based on the dividend rate at the date of grant.
- Risk free interest rate of 3.97 percent, based on the yield of treasury bonds at the date of grant.

## Stock Options

Stock option activity is summarized as follows:

	Shares (000s)	Weighted Average Exercise Price	Remaining Contractual Term	Intrinsic Value (000s)
<b>Outstanding at December 31, 2008</b>	7,441	\$31.28		
Granted	464	11.37		
Exercised	(372)	13.69		
Expired	(1,860)	50.14		
<b>Outstanding at December 31, 2009</b>	<b>5,673</b>	<b>24.21</b>	<b>1.8 years</b>	<b>\$7,641</b>
<b>Exercisable at December 31, 2009</b>	<b>4,877</b>	<b>\$25.42</b>	<b>1.0 year</b>	<b>\$4,102</b>

All outstanding stock options at December 31, 2009 are expected to vest. Stock options vest over a three year service period, beginning at the date of grant, and the compensation cost is recognized ratably during the vesting period. The total intrinsic value of options exercised during 2009, 2008, and 2007 was \$2.6 million, \$1.0 million, and \$3.9 million, respectively. The total fair value of options that vested during 2009 and 2008 was \$2.0 million and \$0.5 million, respectively. No stock options vested in 2007. At December 31, 2009, we had \$0.5 million of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 0.9 years.

The weighted average grant date fair value of options granted during 2009, 2008, and 2007 was \$4.45, \$8.84, and \$8.61, respectively. We estimated the fair value on the date of grant using the Black-Scholes valuation model. The following assumptions were used to value the 2009, 2008, and 2007 grants:

- Expected volatility of 50 percent, 43 percent, and 44 percent, respectively, based on our historical daily stock prices.
- Expected life of 5.0 years, based on historical average years to exercise.
- Expected dividend yield of 1.68 percent, 1.30 percent, and 1.57 percent, respectively, based on the dividend rate at the date of grant.
- Risk free interest rate of 1.89 percent, 2.93 percent, and 4.67 percent, respectively, based on the yield of treasury bonds at the date of grant.

## ESPP

ESPP activity is summarized as follows:

	Year Ended December 31		
	2009	2008	2007
Number of Shares Sold	232,962	148,490	114,420
Weighted Average Exercise Price	\$14.94	\$20.44	\$24.32
Weighted Average Grant Date Fair Value	\$ 4.13	\$ 5.72	\$ 5.18

## Expense

Compensation expense for the stock plans, as reported in our consolidated statements of income, is as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Nonvested Stock Awards	\$22.4	\$18.3	\$10.7
Performance Restricted Stock Units	6.8	6.7	2.0
Stock Options	3.7	2.9	0.5
Employee Stock Purchase Plan	1.0	0.9	0.5
<b>Total Compensation Expense, Before Income Tax</b>	<b>\$33.9</b>	<b>\$28.8</b>	<b>\$13.7</b>
<b>Total Compensation Expense, Net of Income Tax</b>	<b>\$22.0</b>	<b>\$18.7</b>	<b>\$ 8.9</b>

Cash received under all share-based payment arrangements for the years ended December 31, 2009, 2008, and 2007 was \$8.0 million, \$4.4 million, and \$7.8 million, respectively.

## Note 12. Reinsurance

In the normal course of business, we assume reinsurance from and cede reinsurance to other insurance companies. The primary purpose of ceded reinsurance is to limit losses from large exposures. However, if the assuming reinsurer is unable to meet its obligations, we remain contingently liable. We evaluate the financial condition of reinsurers and monitor concentration of credit risk to minimize this exposure. We may also require assets in trust, letters of credit, or other acceptable collateral to support reinsurance recoverable balances.

The reinsurance recoverable at December 31, 2009 relates to 89 companies. Fourteen major companies account for approximately 92 percent of the reinsurance recoverable at December 31, 2009, and are all companies rated A or better by A.M. Best Company (AM Best) or are fully securitized by letters of credit or investment-grade fixed maturity securities held in trust. Of the remaining reinsurance recoverable, approximately seven percent relates to business reinsured either with companies rated A- or better by AM Best, with overseas entities with equivalent ratings or backed by letters of credit or trust agreements, or through reinsurance arrangements wherein we retain the assets in our general account. Approximately one percent of the reinsurance recoverable is held by companies either rated below A- by AM Best or not rated.

Reinsurance activity is accounted for on a basis consistent with the terms of the reinsurance contracts and the accounting used for the original policies issued. Premium income and benefits and change in reserves for future benefits are presented in our consolidated statements of income net of reinsurance ceded.

Reinsurance data is as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Direct Premium Income	\$7,494.7	\$7,817.1	\$7,997.5
Reinsurance Assumed	239.5	264.4	289.6
Reinsurance Ceded	(258.7)	(298.2)	(386.0)
<b>Net Premium Income</b>	<b>\$7,475.5</b>	<b>\$7,783.3</b>	<b>\$7,901.1</b>
Ceded Benefits and Change in Reserves for Future Benefits	\$ 604.2	\$ 737.2	\$ 947.8

During 2008, we entered into a reinsurance arrangement for the ongoing administration and management of a closed block of group long-term disability claims in our Unum UK segment. As a result of the assumption, we received cash of £24.5 million, recorded £0.4 million in accrued premiums receivable, assumed reserves of £22.2 million (approximately \$44.2 million), and recorded a deferred gain of £2.7 million.

During 2007, we recaptured a closed block of individual disability business in our Individual Disability—Closed Block segment, with approximately \$204.3 million in reserves and \$7.0 million of annual premium. The recapture had an immaterial effect on operating results.

During 2000, we reinsured substantially all of the individual life and corporate-owned life insurance blocks of business, which are now reported in our Corporate and Other segment. The gain on these reinsurance transactions was deferred and is being amortized into income. A portion of the ceded corporate-owned life insurance block of business surrendered during 2007. The termination of this fully ceded business had no impact on our operating results and will not materially affect the amortization of the deferred gain. The termination resulted in a balance sheet only decrease in reserves for future policy and contract benefits of \$1,094.0 million and policy loans of \$1,013.7 million, with corresponding offsets to each in the reinsurance recoverable. The termination of this fully ceded business had no impact on our cash flows.

## Note 13. Segment Information

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Individual Disability—Closed Block, and Corporate and Other.

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business, comprised of individual disability—recently issued, group and individual long-term care, and brokerage voluntary benefits products. These products are marketed through our field sales personnel who work in conjunction with independent brokers and consultants. We discontinued selling individual long-term care insurance effective in 2009.

The Unum UK segment includes group long-term disability insurance, group life products, and individual disability products sold primarily in the United Kingdom through field sales personnel and independent brokers and consultants.

The Colonial Life segment includes insurance for accident, sickness, and disability products, life products, and cancer and critical illness products marketed primarily to employees at the workplace through an agency sales force and brokers.

The Individual Disability—Closed Block segment generally consists of those individual disability policies that were designed to be distributed to individuals in a non-workplace setting and which were primarily in-force prior to the substantial changes in product offerings, pricing, distribution, and underwriting which generally occurred during the period 1994 through 1998. A minimal amount of new business continued to be sold subsequent to these changes, but we stopped selling new policies in this segment at the beginning of 2004 other than update features contractually allowable on existing policies.

The Corporate and Other segment includes investment income on corporate assets not specifically allocated to a line of business, interest expense on corporate debt other than non-recourse debt, and certain other corporate income and expense not allocated to a line of business. The Corporate and Other segment also includes results from certain Unum US insurance products not actively marketed, including individual life and corporate-owned life insurance, reinsurance pools and management operations, group pension, health insurance, and individual annuities.

In the following segment financial data, “operating revenue” excludes net realized investment gains and losses. “Operating income” or “operating loss” excludes net realized investment gains and losses, income tax, and results of discontinued operations. These are considered non-GAAP financial measures. These non-GAAP financial measures of “operating revenue” and “operating income” or “operating loss” differ from revenue and income from continuing operations before income tax as presented in our consolidated statements of income prepared in accordance with GAAP due to the exclusion of before-tax realized investment gains and losses. We measure segment performance excluding realized investment gains and losses because we believe that this performance measure is a better indicator of the ongoing businesses and the underlying trends in the businesses. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains and losses, and a long-term focus is necessary to maintain profitability over the life of the business.

Realized investment gains and losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. However, income or loss excluding realized investment gains and losses does not replace net income or net loss as a measure of overall profitability. We may experience realized investment losses, which will affect future earnings levels since our underlying business is long-term in nature and we need to earn the assumed interest rates in our liabilities.

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

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Operating Revenue by Segment	\$10,079.3	\$10,448.2	\$10,585.1
Net Realized Investment Gain (Loss)	11.7	(465.9)	(65.2)
<b>Revenue</b>	<b>\$10,091.0</b>	<b>\$ 9,982.3</b>	<b>\$10,519.9</b>
Operating Income by Segment	\$ 1,280.6	\$ 1,289.9	\$ 1,062.4
Net Realized Investment Gain (Loss)	11.7	(465.9)	(65.2)
Income Tax	439.7	270.8	324.8
Income from Discontinued Operations	—	—	6.9
<b>Net Income</b>	<b>\$ 852.6</b>	<b>\$ 553.2</b>	<b>\$ 679.3</b>

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

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
<b>Unum US</b>			
Group Disability			
Group Long-term Disability	\$1,726.9	\$1,838.5	\$1,895.7
Group Short-term Disability	432.8	435.1	485.6
Group Life and Accidental Death & Dismemberment			
Group Life	1,057.7	1,062.8	1,107.4
Accidental Death & Dismemberment	104.9	127.6	131.0
Supplemental and Voluntary			
Individual Disability—Recently Issued	463.7	471.5	456.7
Long-term Care	594.7	580.7	532.9
Voluntary Benefits	492.4	446.8	404.7
	<b>4,873.1</b>	<b>4,963.0</b>	<b>5,014.0</b>
<b>Unum UK</b>			
Group Long-term Disability	503.1	675.9	752.6
Group Life	147.8	174.6	177.4
Individual Disability	35.2	38.8	38.3
	<b>686.1</b>	<b>889.3</b>	<b>968.3</b>
<b>Colonial Life</b>			
Accident, Sickness, and Disability	625.8	606.9	566.6
Life	165.6	157.4	143.5
Cancer and Critical Illness	223.7	213.0	197.1
	<b>1,015.1</b>	<b>977.3</b>	<b>907.2</b>
Individual Disability—Closed Block	898.5	952.3	1,009.9
Corporate and Other	2.7	1.4	1.7
<b>Total</b>	<b>\$7,475.5</b>	<b>\$7,783.3</b>	<b>\$7,901.1</b>

Selected operating statement data by segment is presented as follows:

(in millions of dollars)	Unum US	Unum UK	Colonial Life	Individual Disability— Closed Block	Corporate and Other	Total
<b>Year Ended December 31, 2009</b>						
Total Premium Income	\$4,873.1	\$ 686.1	\$1,015.1	\$ 898.5	\$ 2.7	\$ 7,475.5
Net Investment Income	1,200.5	124.5	114.3	740.6	166.7	2,346.6
Other Income	118.7	2.4	0.5	100.8	34.8	257.2
<b>Operating Revenue</b>	<b>\$6,192.3</b>	<b>\$ 813.0</b>	<b>\$1,129.9</b>	<b>\$1,739.9</b>	<b>\$ 204.2</b>	<b>\$10,079.3</b>
Operating Income (Loss)	\$ 775.0	\$ 249.6	\$ 280.9	\$ 34.3	\$ (59.2)	\$ 1,280.6
Interest and Debt Expense	\$ 2.0	\$ —	\$ —	\$ 16.6	\$ 106.8	\$ 125.4
Depreciation and Amortization	\$ 369.9	\$ 42.4	\$ 192.0	\$ 4.4	\$ 1.6	\$ 610.3
<b>Year Ended December 31, 2008</b>						
Total Premium Income	\$4,963.0	\$ 889.3	\$ 977.3	\$ 952.3	\$ 1.4	\$ 7,783.3
Net Investment Income	1,136.4	181.9	105.7	767.5	197.5	2,389.0
Other Income	132.7	2.0	0.4	98.6	42.2	275.9
<b>Operating Revenue</b>	<b>\$6,232.1</b>	<b>\$1,073.2</b>	<b>\$1,083.4</b>	<b>\$1,818.4</b>	<b>\$ 241.1</b>	<b>\$10,448.2</b>
Operating Income (Loss)	\$ 684.1	\$ 324.0	\$ 268.1	\$ 27.7	\$ (14.0)	\$ 1,289.9
Interest and Debt Expense	\$ 4.2	\$ —	\$ —	\$ 35.1	\$ 117.4	\$ 156.7
Depreciation and Amortization	\$ 368.9	\$ 43.1	\$ 177.3	\$ 4.3	\$ 3.1	\$ 596.7
<b>Year Ended December 31, 2007</b>						
Total Premium Income	\$5,014.0	\$ 968.3	\$ 907.2	\$1,009.9	\$ 1.7	\$ 7,901.1
Net Investment Income	1,114.0	187.4	99.9	827.6	181.0	2,409.9
Other Income	135.6	3.1	0.9	103.7	30.8	274.1
<b>Operating Revenue</b>	<b>\$6,263.6</b>	<b>\$1,158.8</b>	<b>\$1,008.0</b>	<b>\$1,941.2</b>	<b>\$ 213.5</b>	<b>\$10,585.1</b>
Operating Income (Loss)	\$ 542.1	\$ 325.8	\$ 245.8	\$ 109.5	\$ (160.8)	\$ 1,062.4
Interest and Debt Expense	\$ 7.5	\$ —	\$ —	\$ 8.3	\$ 226.1	\$ 241.9
Depreciation and Amortization	\$ 326.9	\$ 61.6	\$ 162.9	\$ 3.2	\$ 5.2	\$ 559.8

The following table provides the changes in deferred acquisition costs by segment:

(in millions of dollars)	Unum US	Unum UK	Colonial Life	Total
<b>Year Ended December 31, 2009</b>				
Beginning of Year	\$1,661.8	\$ 54.7	\$ 755.9	\$2,472.4
Capitalized	335.5	29.1	229.0	593.6
Amortization	(317.2)	(30.5)	(178.5)	(526.2)
Foreign Currency and Other	(17.7)	5.6	(45.2)	(57.3)
<b>End of Year</b>	<b>\$1,662.4</b>	<b>\$ 58.9</b>	<b>\$ 761.2</b>	<b>\$2,482.5</b>
<b>Year Ended December 31, 2008</b>				
Beginning of Year	\$1,642.5	\$ 69.6	\$ 669.8	\$2,381.9
Capitalized	329.7	37.4	223.8	590.9
Amortization	(320.3)	(32.4)	(166.4)	(519.1)
Foreign Currency and Other	9.9	(19.9)	28.7	18.7
<b>End of Year</b>	<b>\$1,661.8</b>	<b>\$ 54.7</b>	<b>\$ 755.9</b>	<b>\$2,472.4</b>
<b>Year Ended December 31, 2007</b>				
Beginning of Year	\$2,205.2	\$165.1	\$ 612.8	\$2,983.1
Cumulative Effect of Accounting Principle Change—Note 1	(589.8)	(88.3)	—	(678.1)
Capitalized	304.2	41.2	210.9	556.3
Amortization	(277.1)	(49.4)	(153.9)	(480.4)
Foreign Currency and Other	—	1.0	—	1.0
<b>End of Year</b>	<b>\$1,642.5</b>	<b>\$ 69.6</b>	<b>\$ 669.8</b>	<b>\$2,381.9</b>

Assets by segment are as follows:

(in millions of dollars)	December 31	
	2009	2008
<b>By Segment</b>		
Unum US	\$23,339.9	\$20,440.9
Unum UK	3,280.7	2,865.4
Colonial Life	2,805.7	2,446.9
Individual Disability—Closed Block	15,238.8	14,353.0
Corporate and Other	9,811.9	9,311.2
<b>Total</b>	<b>\$54,477.0</b>	<b>\$49,417.4</b>

Revenue is primarily derived from sources in the United States and the United Kingdom. There are no material revenues or assets attributable to foreign operations other than those reported in our Unum UK segment.

We report goodwill in our Unum US segment and in our Unum UK segment, which are the segments expected to benefit from the originating business combinations. At December 31, 2009 and 2008, goodwill was \$201.6 million and \$200.5 million, respectively, with \$190.0 million attributable to Unum US and the remainder attributable to Unum UK. The increase during 2009 is due entirely to the fluctuation in the British pound sterling to dollar exchange rate.

Stockholders' equity is allocated to the operating segments on the basis of an internal allocation formula that reflects the volume and risk components of each operating segment's business and aligns allocated equity with our target capital levels for regulatory and rating agency purposes. We modify this formula periodically to recognize changes in the views of capital requirements.

## Note 14. Commitments and Contingent Liabilities

### Commitments

We have noncancelable lease obligations on certain office space and equipment. As of December 31, 2009, the aggregate net minimum lease payments were \$102.2 million payable as follows: \$25.7 million in 2010, \$20.2 million in 2011, \$16.3 million in 2012, \$11.5 million in 2013, \$8.9 million in 2014, and \$19.6 million thereafter. Rental expense for the years ended December 31, 2009, 2008, and 2007 was \$30.1 million, \$34.5 million, and \$35.7 million, respectively.

### 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.

Unless indicated otherwise in the descriptions below, reserves have not been established for litigation and contingencies. An estimated loss is accrued when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

In the disclosures that follow about litigation, we refer to the name of the company specified in the original complaint, following the practice in the courts. Therefore, references to UnumProvident Corporation should be understood as references to Unum Group.

### Claims Handling Matters

#### Multidistrict Litigation

Between November 22, 2002 and March 11, 2003 five 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, and the cases were consolidated. The plaintiffs then filed a single consolidated amended complaint, which purports to assert claims 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 law 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.

On August 27, 2008, the parties entered into a stipulation of settlement to resolve the litigation. Under the terms of the settlement, which was subject to approval of the court, we agreed to implement or continue certain corporate governance measures and pay plaintiffs' attorneys' fees in an amount to be determined by the court. In January 2010, the court approved this settlement and awarded an immaterial amount of attorneys' fees.

### Other Claim Litigation

We and our insurance 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.

On June 13, 2005, following a trial in the U.S. District Court of Nevada in the matter of G. Clinton Merrick vs. UnumProvident Corporation, Paul Revere Life Insurance Company, et al., judgment was entered in plaintiff's favor on his breach of contract and bad faith claims, and the plaintiff was awarded contract, emotional distress, and punitive damages, as well as attorneys' fees. We appealed that judgment. The Ninth Circuit Court of Appeals reversed that portion of the judgment that awarded attorneys' fees and punitive damages award and remanded for a new trial on the issue of punitive damages that should be awarded, if any. We thereafter paid the portion of the verdict that had been upheld and proceeded to a second trial on the limited issue of the amount of punitive damages to be awarded against Unum Group and one of our insurance subsidiaries, if any. A second jury verdict was entered on July 3, 2008, in the amount of \$24.0 million as to one of our insurance subsidiaries and \$36.0 million as to Unum Group. Following post trial motions, the trial court affirmed the judgment as to our insurance subsidiary and reduced the judgment as to Unum Group to \$26.4 million. We have appealed the amended judgment to the Ninth Circuit. We believe that we have strong legal arguments to raise on appeal that create significant uncertainty regarding the ultimate outcome of this matter. However, since our efforts to reduce or overturn this award are at an early stage in the appeals process, an estimate of the liability to resolve this matter was established in 2008. The accrual was not material to our operating results.

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 Other Matters

### Examinations and Investigations

Beginning in 2004, several of our insurance subsidiaries' insurance regulators requested information relating to the subsidiaries' policies and practices on one or more aspects of broker compensation, quoting insurance business, and related matters. Additionally, we have responded to investigations about certain of these same matters by state attorneys general and the U.S. Department of Labor. The National Association of Insurance Commissioners (NAIC) has undertaken to provide a uniform Compensation Disclosure Amendment to the Producer Licensing Model Act that can be adopted by states in an effort to provide uniform guidance to insurers, brokers, and customers relating to disclosure of broker compensation. We expect there may be continued uncertainty surrounding this matter until clearer regulatory guidelines are established.

In November 2009, we were contacted by Florida state insurance regulators to discuss a resolution of their investigation of our compliance with state and federal laws with respect to producer compensation, solicitation activities, policies sold to state or municipal entities, and information regarding compensation arrangements with brokers. This investigation had been commenced in 2005, and, until this most recent contact, we had received no communications from the regulators regarding this matter since December 2007.

### 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, the Racketeer Influenced Corrupt Organizations Act (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 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 an appeal with the Third Circuit Court of Appeals of the order dismissing their federal antitrust and RICO claims.

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 recently renewed a motion to remand the case to the state court in Florida, and that motion was denied without prejudice.

## Miscellaneous Matters

In September 2003, United States of America ex. rel. Patrick J. Loughren v. UnumProvident Corporation and GENEX Services, Inc. (GENEX) 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 alleged 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. Relator identified 95 individual claims that he alleged to be false and sought to present expert testimony from a statistician who would say that each of those claims found to be false could be extrapolated to support a finding of a much larger number of false claims. We filed a motion for summary judgment which was denied on September 15, 2008. The case proceeded to trial at which seven out of the 95 claims were adjudicated. We prevailed on four of the claims, the Relator prevailed on two of the claims, and the jury could not reach a verdict on one of the claims. The jury awarded the Relator \$850 in damages which was trebled. The court also assessed a penalty of \$11,000 for each of the two claims. On February 24, 2009, the court also ruled that the testimony of the Relator's expert in support of extrapolation would be excluded. The court has since granted our request that it enter a final and separate judgment on the two claims decided against us, and we have filed an appeal with the First Circuit Court of Appeals. The District Court has stayed further trial of the remaining claims pending the outcome of our appeal.

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 certain group life insurance policies when we paid life insurance proceeds by establishing interest-bearing retained asset accounts rather than by mailing checks. Plaintiffs seek to represent a class of beneficiaries under group life insurance contracts that were employee welfare benefit plans under ERISA and under which we paid death benefits pursuant to a retained asset account. Plaintiffs seek to recover on behalf of the class the difference between the interest paid to them and amounts alleged to have been realized by us through our investment of the retained assets. On February 4, 2008, the court granted our motion to dismiss all claims, but on November 6, 2008 the First Circuit Court of Appeals vacated the District Court's order. Our petition for rehearing in the First Circuit Court of Appeals was denied on January 21, 2009, and the case was remanded to the District Court. On August 19, 2009, the District Court denied plaintiffs' motion for class certification under Federal Rules of Civil Procedure Rule 23(b)(2). Plaintiffs filed a motion for leave to file an amended complaint and to file a renewed motion for class certification under Rules of Civil Procedure Rule 23(b)(3). On December 16, 2009, the court denied plaintiffs' motion. Summary judgment motions are pending on plaintiffs' remaining claims.

On May 16, 2008, we were added as a party to a case styled, Public Service Company of Colorado; P.S.R. Investments, Inc.; and Xcel Energy, Inc. v. Theodore J. Mallon; Transfinancial Corporation; and Provident Life and Accident Insurance Company, filed in the District Court, County of Boulder, State of Colorado, alleging among other things breach of contract, unjust enrichment, breach of duty of good faith and fair dealing, fraudulent concealment, negligent misrepresentation and non-disclosure, fraud, civil conspiracy, violation of the Colorado Consumer Protection Act (CCPA), violation of the Colorado Organized Crime Control Act, and conspiracy to violate the Colorado Organized Crime Control Act. These claims arise from the sale of corporate-owned life insurance policies to Public Service Company of Colorado by Mallon in 1984 and 1985. These policies were reinsured to Reassure America Life Insurance Company, a subsidiary of Swiss Reinsurance Company, as of July 2000. In response to the complaint, we filed a motion to dismiss all counts of the complaint asserted against us.

On October 22, 2008, the District Court granted in part and denied in part our motion to dismiss, thereby dismissing all claims against us for violation of the CCPA, violation of the Colorado Organized Crime Control Act, and conspiracy to violate the Colorado Organized Crime Control Act. The plaintiffs filed a third amended complaint to cure the defects in their CCPA claim. We filed another motion to dismiss the plaintiffs' CCPA claims, which was denied.

On September 24, 2009, pursuant to a settlement agreement, several counts were dismissed with prejudice as to all the defendants. In addition, Mr. Mallon and Transfinancial Corporation were dismissed from this action. On November 6, 2009, plaintiffs filed a fourth amended complaint that added a claim for exemplary damages. On November 20, 2009, additional counts were dismissed with prejudice, Xcel Energy, Inc. was dismissed from the action, and all claims asserted by Xcel Energy, Inc. were dismissed with prejudice. The court has issued interim rulings on discovery and merits issues, and the case is set for trial commencing August 16, 2010. We deny the remaining allegations in the fourth amended complaint and plan to vigorously contest them.

In September 2008, we received service of a complaint, in an adversary proceeding in connection with the bankruptcy case In re Quebecor World (USA) Inc., et al. entitled Official Committee of Unsecured Creditors of Quebecor World (USA) Inc., et al., v. American United Life Insurance Company, et al., filed in the United States Bankruptcy Court for the Southern District of New York. The complaint alleges that we received preference payments relating to notes held by certain of our insurance subsidiaries and seeks to avoid and recover such payments plus interest and cost of the action. We deny the allegations in the complaint and will vigorously contest them.

## 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 15. Statutory Financial Information

### Statutory Net Income, Capital and Surplus, and Dividends

Statutory net income for U.S. life insurance companies is reported in conformity with statutory accounting principles prescribed by the NAIC and adopted by applicable domiciliary state laws. The commissioners of the states of domicile have the right to permit other specific practices that may deviate from prescribed practices. For the years ended December 31, 2009, 2008 or 2007, none of the states of domicile for our U.S. insurance subsidiaries had adopted accounting practices that differed materially from statutory accounting principles prescribed by the NAIC.

The statutory operating results of our traditional U.S. insurance subsidiaries, which exclude Tailwind Re and Northwind Re, as well as the statutory results for these two special purpose financial captive U.S. insurance subsidiaries, are as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
<b>Combined Net Income (Loss)</b>			
U.S. Traditional Insurance Subsidiaries	\$639.2	\$540.8	\$ 530.8
Tailwind Re and Northwind Re	\$ 87.2	\$ 79.8	\$(111.5)
<b>Combined Net Gain (Loss) from Operations</b>			
U.S. Traditional Insurance Subsidiaries	\$741.2	\$682.0	\$ 589.1
Tailwind Re and Northwind Re	\$ 87.2	\$ 81.2	\$(111.9)

Statutory capital and surplus is as follows:

(in millions of dollars)	December 31	
	2009	2008
<b>Combined Capital and Surplus</b>		
U.S. Traditional Insurance Subsidiaries	\$3,286.9	\$2,756.0
Tailwind Re and Northwind Re	\$1,300.0	\$1,300.5

Restrictions under applicable state insurance laws limit the amount of ordinary dividends that can be paid to a parent company from its insurance subsidiaries without prior approval by regulatory authorities. For life insurance companies domiciled in the United States, that limitation typically equals, depending on the state of domicile, either ten percent of an insurer's statutory surplus with respect to policyholders as of the preceding year end or the statutory net gain from operations, excluding realized investment gains and losses, of the preceding year. The payment of ordinary dividends to a parent company from its insurance subsidiaries is further limited to the amount of statutory surplus as it relates to policyholders. Based on the restrictions under current law, \$719.7 million is available for the payment of ordinary dividends from our U.S. insurance subsidiaries, excluding Tailwind Re and Northwind Re, during 2010. The ability of Tailwind Re and Northwind Re to pay dividends to their parent companies, Tailwind Holdings and Northwind Holdings, wholly-owned subsidiaries of Unum Group, will depend on their satisfaction of applicable regulatory requirements and on the performance of the business reinsured by Tailwind Re and Northwind Re.

We also have the ability to draw a dividend from our United Kingdom insurance subsidiary, Unum Limited. Such dividends are limited based on insurance company legislation in the United Kingdom, which requires a minimum solvency margin. The amount available under current law for payment of dividends from Unum Limited during 2010 is approximately £198.5 million, subject to regulatory approval. Regulatory restrictions do not limit the amount of dividends available for distribution from our non-insurance subsidiaries. The payment of dividends to the parent company from any of our subsidiaries requires the approval of the individual subsidiary's board of directors.

## Deposits

At December 31, 2009 and 2008, our U.S. insurance subsidiaries had on deposit with U.S. regulatory authorities securities with a book value of \$292.1 million and \$293.7 million held for the protection of policyholders.

## Note 16. Quarterly Results of Operations (Unaudited)

The following is a summary of our unaudited quarterly results of operations for 2009 and 2008:

(in millions of dollars, except share data)	2009			
	4th	3rd	2nd	1st
Premium Income	\$1,865.7	\$1,861.1	\$1,875.9	\$1,872.8
Net Investment Income	595.7	579.6	597.6	573.7
Net Realized Investment Gain (Loss)	(25.9)	14.9	87.3	(64.6)
Total Revenue	2,496.6	2,517.5	2,628.0	2,448.9
Income Before Income Tax	295.9	334.6	411.2	250.6
Net Income	199.4	221.1	267.2	164.9
Net Income Per Common Share				
Basic	0.60	0.67	0.81	0.50
Assuming Dilution	0.60	0.66	0.80	0.50

  

(in millions of dollars, except share data)	2008			
	4th	3rd	2nd	1st
Premium Income	\$1,917.7	\$1,946.5	\$1,968.6	\$1,950.5
Net Investment Income	589.8	594.7	613.1	591.4
Net Realized Investment Gain (Loss)	(257.7)	(165.8)	26.1	(68.5)
Total Revenue	2,323.7	2,442.7	2,675.3	2,540.6
Income Before Income Tax	52.5	159.8	367.0	244.7
Net Income	41.8	108.0	240.3	163.1
Net Income Per Common Share				
Basic	0.13	0.32	0.70	0.47
Assuming Dilution	0.13	0.32	0.69	0.46