

UNUMPROVIDENT CORP
Form 10-Q
November 07, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2006

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 1-11834

UnumProvident Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

62-1598430
(I.R.S. Employer Identification No.)

1 Fountain Square

Chattanooga, Tennessee 37402

(Address of principal executive offices)

423.294.1011

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

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

As of September 30, 2006, 342,541,722 shares of the registrant's common stock were outstanding.

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Cautionary Statement Regarding Forward-Looking Statements

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

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

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

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

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

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

Actual experience in connection with implementation of the multistate market conduct regulatory settlement agreements and the California Department of Insurance settlement agreement may deviate from our assumptions.

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

The level and results of litigation may vary from prior experience, rulings in the multidistrict litigation or other purported class actions may not be favorable to the Company, and either may adversely affect our business and the Company's results of operations in a period.

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

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

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

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

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

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

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Incidence and recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence, the emergence of new diseases, new trends and developments in medical treatments, the effectiveness of risk management programs, and implementation of the multistate regulatory settlement agreements and the California Department of Insurance settlement agreement.

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

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

For further discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2005.

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

Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****UnumProvident Corporation and Subsidiaries**

	September 30	December 31
	2006	2005
	(in millions of dollars)	
	(Unaudited)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$33,045.1; \$32,062.1)	\$ 34,721.3	\$ 34,856.8
Mortgage Loans	893.2	739.4
Real Estate	18.0	18.2
Policy Loans	3,319.6	3,201.4
Other Long-term Investments	118.5	122.8
Short-term Investments	489.3	417.9
Total Investments	39,559.9	39,356.5
Other Assets		
Cash and Bank Deposits	32.2	69.4
Accounts and Premiums Receivable	2,041.4	1,979.2
Reinsurance Receivable	5,573.3	5,609.2
Accrued Investment Income	675.1	618.7
Deferred Policy Acquisition Costs	2,965.0	2,913.3
Value of Business Acquired	77.6	78.5
Goodwill	274.3	273.0
Property and Equipment	371.0	379.5
Current Income Tax	18.4	
Other Assets	555.3	559.9
Separate Account Assets	28.0	29.6
Total Assets	\$ 52,171.5	\$ 51,866.8

See notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION - Continued****UnumProvident Corporation and Subsidiaries**

	September 30 2006	December 31 2005
	(in millions of dollars)	
	(Unaudited)	
Liabilities and Stockholders Equity		
Liabilities		
Policy and Contract Benefits	\$ 2,193.7	\$ 2,063.4
Reserves for Future Policy and Contract Benefits	35,109.5	34,041.5
Unearned Premiums	560.7	481.8
Other Policyholders Funds	2,060.4	2,235.5
Current Income Tax		18.3
Deferred Income Tax	730.8	989.7
Long-term Debt	2,561.6	3,261.6
Other Liabilities	1,332.4	1,381.5
Separate Account Liabilities	28.0	29.6
Total Liabilities	44,577.1	44,502.9
Commitments and Contingent Liabilities - Note 9		
Stockholders Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 344,492,817 and 300,508,859 shares	34.4	30.1
Additional Paid-in Capital	2,195.5	1,627.9
Accumulated Other Comprehensive Income (Loss)		
Net Unrealized Gain on Securities	687.9	1,040.7
Net Gain on Cash Flow Hedges	181.1	273.3
Foreign Currency Translation Adjustment	47.4	22.4
Minimum Pension Liability Adjustment	(172.9)	(172.9)
Retained Earnings	4,675.2	4,610.4
Treasury Stock - at cost: 1,951,095 shares	(54.2)	(54.2)
Deferred Compensation		(13.8)
Total Stockholders Equity	7,594.4	7,363.9
Total Liabilities and Stockholders Equity	\$ 52,171.5	\$ 51,866.8

See notes to consolidated financial statements.

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	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
(in millions of dollars, except share data)				
Revenue				
Premium Income	\$ 1,969.0	\$ 1,952.2	\$ 5,926.2	\$ 5,827.2
Net Investment Income	578.8	547.2	1,719.2	1,623.4
Net Realized Investment Gain (Loss)	4.8	(71.4)	1.5	(9.1)
Other Income	110.4	115.9	330.0	331.0
Total Revenue	2,663.0	2,543.9	7,976.9	7,772.5
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	2,088.9	1,812.1	5,764.3	5,280.6
Commissions	198.9	191.5	613.5	609.4
Interest and Debt Expense	44.2	49.8	146.0	155.5
Cost Related to Early Retirement of Debt			23.1	
Deferral of Policy Acquisition Costs	(127.5)	(119.5)	(392.8)	(402.1)
Amortization of Deferred Policy Acquisition Costs	115.9	112.5	353.7	349.4
Amortization of Value of Business Acquired	2.1	3.9	6.0	11.9
Compensation Expense	193.9	187.7	577.1	565.3
Other Operating Expenses	241.2	237.6	676.7	686.8
Total Benefits and Expenses	2,757.6	2,475.6	7,767.6	7,256.8
Income (Loss) Before Income Tax	(94.6)	68.3	209.3	515.7
Income Tax (Benefit)				
Current	9.6	44.1	104.3	87.0
Deferred	(40.5)	(28.4)	(29.9)	52.6
Total Income Tax (Benefit)	(30.9)	15.7	74.4	139.6
Net Income (Loss)	\$ (63.7)	52.6	\$ 134.9	\$ 376.1
Net Income (Loss) Per Common Share				
Basic	\$ (0.19)	\$ 0.18	\$ 0.42	\$ 1.27
Assuming Dilution	\$ (0.19)	\$ 0.17	\$ 0.41	\$ 1.21
Dividends Paid	\$ 0.075	\$ 0.075	\$ 0.225	\$ 0.225

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

UnumProvident Corporation and Subsidiaries

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Deferred Compensation	Total
	(in millions of dollars)						
Balance at December 31, 2004	\$ 29.8	\$ 1,588.4	\$ 1,481.1	\$ 4,185.5	\$ (54.2)	\$ (6.5)	\$ 7,224.1
Comprehensive Income, Net of Tax							