

DARLING INGREDIENTS INC.

Form 8-K

November 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date
of
report
(Date November
of 5, 2018
earliest
event
reported)

DARLING
INGREDIENTS
INC.

(Exact Name of
Registrant as
Specified in
Charter)

Delaware 001-13323 36-2495346
(State or Other Jurisdiction (Commission (IRS Employer
of Incorporation) File Number) Identification No.)

251
O'CONNOR
RIDGE
BLVD., 75038
SUITE 300,
IRVING,
TEXAS
(Address
of
Principal (Zip Code)
Executive
Offices)

Registrant's (972) 717-0300
telephone
number,

including
area code:

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On November 5, 2018, the Board of Directors (the “Board”) of Darling Ingredients Inc. (the “Company”) elected Nicole M. Ringenberg to the Board and appointed her as a member of the Board’s Audit Committee, effective immediately. In connection with Ms. Ringenberg’s election to the Board, the size of the Board was increased to eleven members. The Board has determined that Ms. Ringenberg is an independent director under the applicable New York Stock Exchange listing standards and the Company’s Corporate Governance Guidelines.

In connection with her service as a director, Ms. Ringenberg will receive the Company’s standard non-employee director compensation (which was disclosed in the Company’s definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission (the “SEC”) on March 28, 2018), including a pro-rata grant of restricted stock units. In addition, the Company will enter into its standard form of Indemnification Agreement for directors and executive officers with Ms. Ringenberg, which was filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on February 25, 2008, and is incorporated herein by reference.

There is no arrangement or understanding between Ms. Ringenberg and any other persons pursuant to which she was selected as a director, nor are there any transactions in which Ms. Ringenberg has an interest requiring disclosure under Item 404(a) of Regulation S-K.

A copy of the press release announcing Ms. Ringenberg’s election to the Board is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

99.1 Press release dated November 6, 2018.

Note 3 - Fair Value of Financial Instruments-(Continued)

The valuation techniques and significant unobservable inputs used in the fair value measurement for financial assets classified as Level 3 are subject to the control processes as described in “Note 3 -- Fair Value of Financial Instruments -- Investments” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. Generally, valuation techniques for fixed maturity securities include spread pricing, matrix pricing and discounted cash flow methodologies; include inputs such as quoted prices for identical or similar securities that are less liquid; and are based on lower levels of trading activity than securities classified as Level 2. The valuation techniques and significant unobservable inputs used in the fair value measurement for equity securities classified as Level 3 use similar valuation techniques and significant unobservable inputs as those used for fixed maturities.

The sensitivity of the estimated fair values to changes in the significant unobservable inputs for fixed maturities and equity securities included in Level 3 generally relates to interest rate spreads, illiquidity premiums and default rates. Significant spread widening in isolation will adversely impact the overall valuation, while significant spread tightening will lead to substantial valuation increases. Significant increases (decreases) in illiquidity premiums in isolation will result in substantially lower (higher) valuations. Significant increases (decreases) in expected default rates in isolation will result in substantially lower (higher) valuations.

Financial Instruments Not Carried at Fair Value; Disclosure Required

The Company has various other financial assets and financial liabilities used in the normal course of business that are not carried at fair value, but for which fair value disclosure is required. The following table presents the carrying value, fair value and fair value hierarchy of these financial assets and financial liabilities.

	Carrying Amount	Fair Value	Fair Value Measurements at Reporting Date Using		
			Level 1	Level 2	Level 3
September 30, 2016					
Financial Assets					
Investments					
Other investments	\$ 150,661	\$ 155,183	\$-	\$-	\$ 155,183
Financial Liabilities					
Investment contract and life policy reserves, fixed annuity contracts	4,308,100	4,179,033	-	-	4,179,033
Investment contract and life policy reserves, account values on life contracts	78,741	82,642	-	-	82,642
Other policyholder funds	651,205	651,205	-	575,247	75,958

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Long-term debt	247,146	267,634	267,634	-	-
December 31, 2015					
Financial Assets					
Investments					
Other investments	\$ 148,759	\$ 153,228	\$-	\$-	\$ 153,228
Financial Liabilities					
Investment contract and life policy reserves, fixed annuity contracts	4,072,102	4,049,840	-	-	4,049,840
Investment contract and life policy reserves, account values on life contracts	77,429	81,360	-	-	81,360
Other policyholder funds	653,631	653,631	-	575,104	78,527
Long-term debt	246,975	252,700	252,700	-	-

Note 4 - Derivative Instruments

In February 2014, the Company began offering fixed indexed annuity products (“FIA”), which are deferred fixed annuities that guarantee the return of principal to the contractholder and credit interest based on a percentage of the gain in a specified market index. In October 2015, the Company began offering indexed universal life products (“IUL”), which also credit interest based on a percentage of the gain in a specified market index. When deposits are received for FIA and IUL contracts, a portion is used to purchase derivatives consisting of call options on the applicable market indices to fund the index credits due to FIA and IUL policyholders. For the Company, substantially all such call options are one-year options purchased to match the funding requirements of the underlying contracts. The call options are carried at fair value with the change in fair value included in Net Realized Investment Gains (Losses), a component of revenues, in the Consolidated Statements of Operations. The change in fair value of derivatives includes the gains or losses recognized at the expiration of the option term or early termination and the changes in fair value for open positions. Call options are not purchased to fund the index liabilities which may arise after the next deposit anniversary date. On the respective anniversary dates of the indexed deposits, the index used to compute the annual index credit is reset and new one-year call options are purchased to fund the next annual index credit. The cost of these purchases is managed through the terms of the FIA and IUL contracts, which permit changes to index return caps, participation rates and/or asset fees, subject to guaranteed minimums on each contract’s anniversary date. By adjusting the index return caps, participation rates or asset fees, crediting rates generally can be managed except in cases where the contractual features would prevent further modifications.

The future annual index credits on fixed indexed annuities are treated as a “series of embedded derivatives” over the expected life of the applicable contract with a corresponding reserve recorded. For the indexed universal life contracts, the embedded derivative represents a single year liability for the index return.

The Company carries all derivative instruments as assets or liabilities in the Consolidated Balance Sheets at fair value. The Company elected to not use hedge accounting for derivative transactions related to the FIA and IUL products. As a result, the Company records the purchased call options and the embedded derivatives related to the provision of a contingent return at fair value, with changes in the fair value of the derivatives recognized immediately in the Consolidated Statements of Operations. The fair values of derivative instruments, including derivative instruments embedded in FIA and IUL contracts, presented in the Consolidated Balance Sheets were as follows:

	September 30, 2016	December 31, 2015
Assets		
Derivative instruments, included in Short-term and Other Investments	\$ 4,534	\$ 2,501
Liabilities		
Fixed indexed annuities - embedded derivatives,		

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included in Other Policyholder Funds	55,179	39,021
Indexed universal life - embedded derivatives, included in Investment Contract and Life Policy Reserves	80	14

Note 4 - Derivative Instruments-(Continued)

In general, the change in the fair value of the embedded derivatives related to the fixed indexed annuities will not correspond to the change in fair value of the purchased call options because the purchased call options are one-year options while the options valued in those embedded derivatives represent the rights of the policyholder to receive index credits over the entire period the fixed indexed annuities are expected to be in force, which typically exceeds 10 years. The changes in fair value of derivatives included in the Consolidated Statements of Operations were as follows:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2016	2015	2016	2015
Change in fair value of derivatives (1):				
Revenues				
Net realized investment gains (losses)	\$562	\$(1,564)	\$422	\$(2,171)
Change in fair value of embedded derivatives:				
Revenues				
Net realized investment gains (losses)	(76)	1,328	(2,077)	1,795

(1) Includes the gains or losses recognized at the expiration of the option term or early termination and the changes in fair value for open options.

The Company's strategy attempts to mitigate potential risk of loss under these agreements through a regular monitoring process, which evaluates the program's effectiveness. The Company is exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, option contracts are purchased from multiple counterparties, which are evaluated for creditworthiness prior to purchase of the contracts. All of these options have been purchased from nationally recognized financial institutions with a Standard and Poor's/Moody's long-term credit rating of "BBB+/"Baa1" or higher at the time of purchase and the maximum credit exposure to any single counterparty is subject to concentration limits. The Company also obtains credit support agreements that allow it to request the counterparty to provide collateral when the fair value of the exposure to the counterparty exceeds specified amounts.

The notional amount and fair value of call options by counterparty and each counterparty's long-term credit ratings were as follows:

Counterparty	September 30, 2016			December 31, 2015		
	Credit Rating		Notional	Fair	Notional	Fair
	(1)					
S&P	Moody's	Amount	Value	Amount	Value	
Bank of America, N.A.	A	A1	\$38,500	\$1,598	\$17,000	\$5
Barclays Bank PLC	A-	A2	41,400	720	7,600	137
Citigroup Inc.	BBB+	Baa1	5,800	2	17,300	845
Credit Suisse International	A	A2	64,300	1,442	12,000	167
Societe Generale	A	A2	23,200	772	80,800	1,347
Total			\$173,200	\$4,534	\$134,700	\$2,501

(1) As assigned by Standard & Poor's Corporation ("S&P") and Moody's Investors Service, Inc. ("Moody's").

Note 4 - Derivative Instruments-(Continued)

As of September 30, 2016 and December 31, 2015, the Company held \$4,770 and \$2,617, respectively, of cash received from counterparties for derivative collateral, which is included in Other Liabilities on the Consolidated Balance Sheets. This derivative collateral limits the Company's maximum amount of economic loss due to credit risk that would be incurred if parties to the call options failed completely to perform according to the terms of the contracts to \$250 per counterparty.

Note 5 - Debt

Indebtedness outstanding was as follows:

	September 30, 2016	December 31, 2015
Short-term debt:		
Bank Credit Facility, expires July 30, 2019	\$ -	\$ -
Long-term debt:		
4.50% Senior Notes, due December 1, 2025. Aggregate principal amount of \$250,000 less unaccrued discount of \$617 and \$654 (4.5% imputed rate) and unamortized debt issuance costs of \$2,237 and \$2,371	247,146	246,975

The Credit Agreement with Financial Institutions ("Bank Credit Facility") and 4.50% Senior Notes due 2025 ("Senior Notes due 2025") are described in "Notes to Consolidated Financial Statements -- Note 7 -- Debt" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Note 6 - Reinsurance

The Company recognizes the cost of reinsurance premiums over the contract periods for such premiums in proportion to the insurance protection provided. Amounts recoverable from reinsurers for unpaid claims and claim settlement expenses, including estimated amounts for unsettled claims, claims incurred but not yet reported and policy benefits, are estimated in a manner consistent with the insurance liability associated with the policy. The effects of reinsurance on premiums written and contract deposits; premiums and contract charges earned; and benefits, claims and settlement expenses were as follows:

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount
Three months ended September 30, 2016				
Premiums written and contract deposits	\$356,155	\$ 5,555	\$ 934	\$351,534
Premiums and contract charges earned	195,654	5,584	980	191,050
Benefits, claims and settlement expenses	139,114	4,642	1,238	135,710
Three months ended September 30, 2015				
Premiums written and contract deposits	\$331,223	\$ 5,952	\$ 927	\$326,198
Premiums and contract charges earned	187,813	5,961	960	182,812
Benefits, claims and settlement expenses	123,061	3,034	1,154	121,181
Nine months ended September 30, 2016				
Premiums written and contract deposits	\$960,945	\$ 17,244	\$ 2,881	\$946,582
Premiums and contract charges earned	579,283	17,305	2,882	564,860
Benefits, claims and settlement expenses	422,352	21,748	3,027	403,631
Nine months ended September 30, 2015				
Premiums written and contract deposits	\$966,867	\$ 18,260	\$ 2,720	\$951,327
Premiums and contract charges earned	560,818	18,608	2,717	544,927
Benefits, claims and settlement expenses	378,939	13,397	2,597	368,139

Note 7 - Commitments*Investment Commitments*

From time to time, the Company has outstanding commitments to purchase investments and/or commitments to lend funds under bridge loans. Unfunded commitments to purchase investments were \$184,825 and \$147,139 at September 30, 2016 and December 31, 2015, respectively.

Note 8 - Segment Information

The Company conducts and manages its business through four segments. The three operating segments, representing the major lines of insurance business, are: (1) property and casualty insurance, primarily personal lines automobile and homeowners products; (2) retirement annuity products, primarily tax-qualified fixed and variable deposits; and (3) life insurance. The Company does not allocate the impact of corporate-level transactions to the insurance segments, consistent with the basis for management's evaluation of the results of those segments, but classifies those items in the fourth segment, corporate and other. In addition to ongoing transactions such as corporate debt service, realized investment gains and losses and certain public company expenses, such items also have included corporate debt retirement costs/gains, when applicable. Summarized financial information for these segments is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Insurance premiums and contract charges earned				
Property and casualty	\$ 155,727	\$ 149,210	\$ 461,520	\$ 443,616
Annuity	6,448	6,541	18,614	19,280
Life	28,875	27,061	84,726	82,031
Total	\$ 191,050	\$ 182,812	\$ 564,860	\$ 544,927
Net investment income				
Property and casualty	\$ 10,018	\$ 7,350	\$ 28,997	\$ 25,790
Annuity	66,174	56,271	186,950	169,846
Life	18,852	17,612	55,338	53,342
Corporate and other	15	5	44	17
Intersegment eliminations	(212)	(222)	(644)	(671)
Total	\$ 94,847	\$ 81,016	\$ 270,685	\$ 248,324
Net income (loss)				
Property and casualty	\$ 6,715	\$ 11,253	\$ 16,047	\$ 32,120
Annuity	15,732	8,716	39,348	32,973
Life	4,583	3,619	13,072	10,647
Corporate and other	(107)	(1,604)	(4,525)	(3,298)
Total	\$ 26,923	\$ 21,984	\$ 63,942	\$ 72,442
September 30, December 31,				
2016 2015				
Assets				
Property and casualty	\$ 1,147,850	\$ 1,098,415		
Annuity	7,437,926	7,001,411		

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Life	1,997,990	1,862,719
Corporate and other	141,162	131,635
Intersegment eliminations	(33,851)	(37,208)
Total	\$10,691,077	\$10,056,972

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (“MD&A”)**

(Dollars in millions, except per share data)

Measures within this MD&A that are not based on accounting principles generally accepted in the United States (“non-GAAP”) are marked by an asterisk (“*”). An explanation of these measures is contained in the Glossary of Selected Terms included as an exhibit to this Quarterly Report on Form 10-Q.

Forward-looking Information

Statements made in the following discussion that are not historical in nature are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to known and unknown risks, uncertainties and other factors. Horace Mann is not under any obligation to (and expressly disclaims any such obligation to) update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. It is important to note that the Company’s actual results could differ materially from those projected in forward-looking statements due to a number of risks and uncertainties inherent in the Company’s business. For additional information regarding risks and uncertainties, see “Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. That discussion includes factors such as:

- The impact that a prolonged economic recession may have on the Company’s investment portfolio; volume of new business for automobile, homeowners, annuity and life products; policy renewal rates; and additional annuity contract deposit receipts.
- Fluctuations in the fair value of securities in the Company’s investment portfolio and the related after tax effect on the Company’s shareholders’ equity and total capital through either realized or unrealized investment losses.
- Prevailing low interest rate levels, including the impact of interest rates on (1) the Company’s ability to maintain appropriate interest rate spreads over minimum fixed rates guaranteed in the Company’s annuity and life products, (2) the book yield of the Company’s investment portfolio, (3) unrealized gains and losses in the Company’s investment portfolio and the related after tax effect on the Company’s shareholders’ equity and total capital, (4) amortization of deferred policy acquisition costs and (5) capital levels of the Company’s life insurance subsidiaries.
- The frequency and severity of events such as hurricanes, storms, earthquakes and wildfires, and the ability of the Company to provide accurate estimates of ultimate claim costs in its consolidated financial statements.
- The Company’s risk exposure to catastrophe-prone areas. Based on full year 2015 property and casualty direct earned premiums, the Company’s ten largest states represented 57% of the segment total. Included in this top ten group are certain states which are considered more prone to catastrophe occurrences: California, North Carolina, Texas, South

Carolina, Florida and Louisiana.

The ability of the Company to maintain a favorable catastrophe reinsurance program considering both availability and cost; and the collectibility of reinsurance receivables.

Adverse changes in market appreciation, interest spreads, business persistency and policyholder mortality and morbidity rates and the resulting impact on both estimated reserves and the amortization of deferred policy acquisition costs.

- Adverse results from the assessment of the Company's goodwill asset requiring write off of the impaired portion.
- The Company's ability to refinance outstanding indebtedness or repurchase shares of the Company's common stock. The Company's ability to (1) develop and expand its marketing operations, including agents and other points of distribution, and (2) maintain and secure access to educators, school administrators, principals and school business officials. The effects of economic forces and other issues affecting the educator market including, but not limited to, federal, state and local budget deficits and cut-backs and adverse changes in state and local tax revenues. The effects of these forces can include, among others, teacher layoffs and early retirements, as well as individual concerns regarding employment and economic uncertainty.
- The Company's ability to profitably expand its property and casualty business in highly competitive environments. Changes in federal and state laws and regulations, which affect the relative tax and other advantages of the Company's life and annuity products to customers, including, but not limited to, changes in IRS regulations governing Section 403(b) plans and the U.S. Department of Labor's recently issued rule defining who is a "fiduciary" of a qualified retirement plan.
- Changes in public employee retirement programs as a result of federal and/or state level pension reform initiatives. Changes in federal and state laws and regulations, which affect the relative tax advantage of certain investments or which affect the ability of debt issuers to declare bankruptcy or restructure debt.
- The Company's ability to effectively implement new or enhanced information technology systems and applications.

Executive Summary

Horace Mann Educators Corporation ("HMEC"; and together with its subsidiaries, the "Company" or "Horace Mann") is an insurance holding company. Through its subsidiaries, HMEC markets and underwrites personal lines of property and casualty insurance, retirement annuities and life insurance in the U.S. The Company markets its products primarily to K-12 teachers, administrators and other employees of public schools and their families.

For the three months ended September 30, 2016, the Company's net income of \$26.9 million increased \$5.0 million compared to the prior year. The increase was driven primarily by strong investment results recorded in each of the Company's three operating segments. Total property and casualty segment net income of \$6.7 million decreased \$4.5 million compared to the prior year, including a \$2.2 million after tax increase in property and casualty catastrophe losses as well as elevated automobile loss frequencies impacted by severe weather and higher non-catastrophe property losses. Annuity segment net income of \$15.7 million for the current period increased \$7.0 million compared to the third quarter of 2015, primarily due to an increase in investment income that drove improvement in the net interest spread. Unlocking of deferred policy acquisition costs had a favorable impact on the annuity net income comparison. In addition, income tax expense was reduced by approximately \$1.5 million in the current quarter related to the filing of the prior calendar year tax return; this item primarily benefited the annuity segment. Life segment net income of \$4.6 million increased \$1.0 million compared to the third quarter of 2015 due to investment income growth and slightly lower mortality costs in the current quarter. The Company's after tax net realized investment gains were \$2.7 million compared to after tax realized investment gains of \$0.7 million a year earlier.

For the nine months ended September 30, 2016, the Company's net income of \$63.9 million decreased \$8.5 million compared to the prior year. After tax net realized investment gains were \$3.8 million compared to \$5.5 million a year earlier. For the property and casualty segment, net income of \$16.0 million decreased \$16.1 million compared to the first nine months of 2015. The property and casualty combined ratio was 102.4% for the first nine months of 2016, 5.9 percentage points higher than the 96.5% for the same period in 2015, primarily reflecting improvement in current accident year non-catastrophe results for homeowners -- reflecting the impacts of initiatives to improve profitability -- more than offset by pressure on automobile results, including higher non-catastrophe loss severity and an increase in loss frequencies. In addition, catastrophe losses increased in the current period -- representing a \$7.6 million after tax decrease to net income compared to the same period in 2015 -- and the current period reflected a reduced level of favorable prior years' reserve development -- representing a \$3.7 million reduction to net income compared to the first nine months of 2015. Annuity segment net income of \$39.3 million for the current period increased \$6.3 million compared to the first nine months of 2015, driven by investment income growth -- improving the net interest spread -- partially offset by pressures of the interest rate environment, as well as an increase in operating expenses -- including costs related to the Company's continued modernization of technology and infrastructure. The net interest margin amount increased \$7.0 million after tax compared to the prior year, including an increase in gains on investment prepayments. For the first nine months of 2016 and 2015, unlocking of annuity deferred policy acquisition costs decreased net income \$0.4 million and \$1.2 million, respectively, largely due to financial market performance. For the nine months ended September 30, 2016, income tax expense was reduced by approximately \$1.5 million related to the filing of the prior calendar year tax return; this item primarily benefited the annuity segment. Annuity assets under management of \$6.3 billion increased 8% compared to the prior year and disciplined crediting rate management continues. Life segment net income of \$13.1 million increased \$2.5 million compared to the first nine months of 2015 primarily due to investment income growth accompanied by a decrease in mortality losses in the current period.

Premiums written and contract deposits* decreased slightly compared to the first nine months of 2015 as growth in the property and casualty and life segments was offset by a decrease in the amount of annuity deposits received in the current period. Property and casualty segment premiums written increased 5% compared to the prior year, primarily due to the favorable impacts from increases in average premium per policy for homeowners and automobile, accompanied by increases in automobile policies in force and reductions in catastrophe reinsurance costs. Life segment insurance premiums and contract deposits increased 6% compared to the first nine months of 2015. Annuity deposits received increased 11% for the third quarter, moderating the year-to-date decrease to 7%, including comparison to the 2015 favorable impact of non-recurring deposits related to changes in the Company's employee retirement savings plans as further explained in "Results of Operations -- Insurance Premiums and Contract Charges".

The Company's book value per share was \$35.94 at September 30, 2016, an increase of 12% compared to 12 months earlier. This increase reflected net income for the trailing 12 months accompanied by a significant increase in net unrealized investment gains primarily due to lower yields on U.S. Treasury securities and tighter credit spreads. At September 30, 2016, book value per share excluding investment fair value adjustments* was \$27.54, representing a 4% increase compared to 12 months earlier.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires the Company’s management to make estimates and assumptions based on information available at the time the consolidated financial statements are prepared. These estimates and assumptions affect the reported amounts of the Company’s consolidated assets, liabilities, shareholders’ equity and net income. Certain accounting estimates are particularly sensitive because of their significance to the Company’s consolidated financial statements and because of the possibility that subsequent events and available information may differ markedly from management’s judgments at the time the consolidated financial statements were prepared. Management has discussed with the Audit Committee the quality, not just the acceptability, of the Company’s accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Company’s accounting policies and their application, and the clarity and completeness of the Company’s consolidated financial statements, which include related disclosures. For the Company, the areas most subject to significant management judgments include: fair value measurements, other-than-temporary impairment of investments, goodwill, deferred policy acquisition costs for investment contracts and life insurance products with account values, liabilities for property and casualty claims and claim expenses, liabilities for future policy benefits, deferred taxes and valuation of assets and liabilities related to the defined benefit pension plan.

Compared to December 31, 2015, at September 30, 2016 there were no material changes to the accounting policies for the areas most subject to significant management judgments identified above. In addition to disclosures in “Notes to Consolidated Financial Statements” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, discussion of accounting policies, including certain sensitivity information, was presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Critical Accounting Policies” in that Form 10-K.

Results of Operations

Insurance Premiums and Contract Charges

	Three Months Ended		Change From		Nine Months Ended		Change From	
	September 30, 2016	2015	Prior Year	Percent Amount	September 30, 2016	2015	Prior Year	Percent Amount
Insurance premiums written and contract deposits (includes annuity and life contract deposits)*								

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Property & casualty (1)	\$ 169.8	\$ 162.0	4.8 %	\$ 7.8	\$ 476.3	\$ 455.0	4.7 %	\$ 21.3
Annuity deposits	154.6	139.3	11.0%	15.3	391.9	422.2	-7.2%	(30.3)
Life	27.2	24.9	9.2 %	2.3	78.4	74.1	5.8 %	4.3
Total	\$351.6	\$326.2	7.8 %	\$ 25.4	\$946.6	\$951.3	-0.5%	\$(4.7)

Insurance premiums and contract charges earned (excludes annuity and life contract deposits)

Property & casualty (1)	\$ 155.7	\$ 149.2	4.4 %	\$ 6.5	\$ 461.5	\$ 443.6	4.0 %	\$ 17.9
Annuity	6.4	6.6	-3.0 %	(0.2)	18.6	19.3	-3.6%	(0.7)
Life	29.0	27.0	7.4 %	2.0	84.8	82.0	3.4 %	2.8
Total	\$ 191.1	\$ 182.8	4.5 %	\$ 8.3	\$ 564.9	\$ 544.9	3.7 %	\$ 20.0

(1) Includes voluntary business and an immaterial amount of involuntary business. Voluntary business represents policies sold through the Company's marketing organization and issued under the Company's underwriting guidelines. Involuntary business consists of allocations of business from state mandatory insurance facilities and assigned risk business.

Number of Policies and Contracts in Force

(actual counts)

	September 30, 2016	December 31, 2015	September 30, 2015
Property and casualty (voluntary)			
Automobile	486,123	486,850	484,555
Property	221,094	224,531	225,416
Total	707,217	711,381	709,971
Annuity	215,445	211,071	207,285
Life	197,792	201,789	201,226

For the three months ended September 30, 2016, the Company's premiums written and contract deposits* of \$351.6 million increased \$25.4 million, or 7.8%, compared to the prior year, primarily due to an increase in the annuity segment accompanied by growth in the property and casualty and life segments.

For the first nine months of 2016, the Company's premiums written and contract deposits* of \$946.6 million decreased \$4.7 million, or 0.5%, compared to the prior year, as a decline in the annuity segment more than offset growth in the property and casualty and life segments. In 2015, changes in the Company's employee retirement savings plans resulted in non-recurring deposits received in the first half of 2015 -- see additional explanation below. The Company's premiums and contract charges earned increased \$8.3 million, or 4.5%, compared to the third quarter of 2015 and increased \$20.0 million, or 3.7%, compared to the nine months ended September 30, 2015, primarily due to increases in average premium per policy for both homeowners and automobile.

Total property and casualty premiums written* increased 4.7%, or \$21.3 million, in the first nine months of 2016, compared to the prior year. Average written premium per policy for both automobile and homeowners increased compared to the prior year and the number of automobile policies in force also increased compared to 12 months earlier; the impacts of these items were partially offset by a reduced level of homeowners policies in force in the current period. For 2016, the Company's full year rate plan anticipates mid-single digit average rate increases (including states with no rate actions) for both automobile and homeowners; average approved rate changes during the first nine months of 2016 were consistent with those plans at 7% for automobile and 5% for homeowners.

Based on policies in force, the current year voluntary automobile 12 month retention rate for new and renewal policies was 83.5% compared to 84.8% at September 30, 2015, with the anticipated decrease due to recent rate and underwriting actions. The property 12 month new and renewal policy retention rate was 87.8% at September 30, 2016 compared to 88.1% at September 30, 2015. The retention rates have been favorably impacted by the Company's focus on expanding the number of multiline customers and customer utilization of automatic payment plans modestly offset

by underwriting profitability programs, particularly for voluntary automobile business.

Automobile premiums written* increased 5.9%, or \$17.6 million, compared to the first nine months of 2015. In the first nine months of 2016, the voluntary average written premium per policy and average earned premium per policy increased approximately 4% and 3%, respectively, compared to a year earlier, which was augmented by the increase in policies in force compared to a year earlier. The number of educator policies increased more than the total policy count over the 12 month period and represented approximately 85% of the voluntary automobile policies in force at September 30, 2016, December 31, 2015 and September 30, 2015.

Homeowners premiums written* increased 2.4%, or \$3.7 million, compared to the first nine months of 2015. While the number of homeowners policies in force has declined, the average written premium per policy and average earned premium per policy increased approximately 4% and 3%, respectively, in the first nine months of 2016 compared to a year earlier. In addition, reduced catastrophe reinsurance costs benefited the current period premiums written by approximately \$1.1 million. The number of educator policies represented approximately 82% of the homeowners policies in force at September 30, 2016, compared to approximately 81% at both December 31, 2015 and September 30, 2015, and has reflected more moderate declines than the overall homeowner policies in force count. The number of educator policies and total policies has been, and may continue to be, impacted by the Company's risk mitigation programs, including actions in catastrophe-prone coastal areas, involving policies of both educators and non-educators.

The Company continues to evaluate and implement actions to further mitigate its risk exposure in hurricane-prone areas, as well as other areas of the country. Such actions could include, but are not limited to, non-renewal of homeowners policies, restricted agent geographic placement, limitations on agent new business sales, further tightening of underwriting standards and increased utilization of third-party vendor products. By June 30, 2015, the Company completed a non-renewal program to further address homeowners profitability and hurricane exposure issues in Florida. While this program impacted the overall policy in force count and premiums in the short-term, it reduced risk exposure concentration, reduced overall catastrophe reinsurance costs and is expected to improve homeowners longer-term underwriting results. The Company continues to write policies for tenants in Florida. The Company also authorized its agents to write certain third-party vendors' homeowners policies in Florida.

For the nine months ended September 30, 2016, total annuity deposits* received decreased 7.2%, or \$30.3 million, compared to the prior year, primarily due to changes in the Company's employee retirement savings plans which resulted in non-recurring deposits received in the first half of 2015. The current nine month decrease reflected an 11.8% decrease in recurring deposit receipts and a 3.9% decrease in single premium and rollover deposit receipts. Excluding the 2015 non-recurring item, the remaining current period decrease was minimal.

In addition to external contractholder deposits, annuity new recurring deposits include contributions and transfers by Horace Mann's employees into the Company's 401(k) group annuity contract. The majority of the 401(k) related increase in 2015 was due to employees' elections to rollover amounts from a previously terminated, fully funded defined contribution plan third-party investment vehicle into their 401(k) accounts. The Company's employee retirement savings plans are described in "Notes to Consolidated Financial Statements -- Note 11 -- Pension Plans and Other Postretirement Benefits" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Note that deposits into the Company's employee 401(k) group annuity contract are not reported as "sales".

In the first nine months of 2016, new deposits to fixed accounts of \$274.3 million decreased 5.3%, or \$15.3 million, and new deposits to variable accounts of \$117.6 million decreased 11.3%, or \$15.0 million, compared to the prior year, including the impact of the 2015 non-recurring employee retirement savings plans item described above.

Total annuity accumulated value on deposit of \$6.3 billion at September 30, 2016 increased 7.5% compared to a year earlier, reflecting the increase from new deposits received as well as favorable retention. Accumulated value retention for the variable annuity option was 94.6% and 94.1% for the 12 month periods ended September 30, 2016 and 2015, respectively; fixed annuity retention was 94.6% and 94.8% for the respective periods.

Variable annuity accumulated balances of \$1.9 billion at September 30, 2016 increased 7.6% compared to September 30, 2015, reflecting a positive impact from financial market performance over the 12 months partially offset by net balances transferred from the variable account option to the guaranteed interest rate fixed account option. Compared to the first nine months of 2015, annuity segment contract charges earned decreased 3.6%, or \$0.7 million.

Life segment premiums and contract deposits* for the first nine months of 2016 increased 5.8%, or \$4.3 million, compared to the prior year, including the favorable impact of new ordinary life business growth. The ordinary life insurance in force lapse ratio was 4.1% and 4.0% for the 12 months ended September 30, 2016 and 2015, respectively.

Sales*

For the first nine months of 2016, property and casualty new annualized sales premiums increased 7.2% compared to the first nine months of 2015, as 7.9%, or \$4.9 million, growth in new automobile sales was accompanied by growth in homeowners sales of 3.9%, or \$0.5 million, compared to the prior year.

While the first nine months of 2016 annuity new business levels were lower than in the prior year period, the Company's annuity new business levels continued to benefit from agent training and marketing programs, which focus on retirement planning, and build on the positive results produced in recent years. Annuity sales by Horace Mann's agency force increased 12.2% compared to the third quarter of 2015, reducing the year to date decline to 3.3%, or \$8.2 million compared to the first nine months of 2015, with this decline primarily due to the impact in 2015 of non-recurring, non 401(k) rollover deposits from the Company's employee retirement savings plans. Sales from the independent agent distribution channel, which represent approximately 10% of total annuity sales in the current period and are largely single premium and rollover annuity deposits, decreased approximately 9% compared to a year earlier. As a result, total Horace Mann annuity sales from the combined distribution channels decreased 3.9% compared to the nine months ended September 30, 2015. Overall, the Company's new recurring deposit business (measured on an annualized basis at the time of sale, compared to the reporting of new contract deposits which are recorded when cash is received) decreased 3.5% compared to the first nine months of 2015, and single premium and rollover deposits decreased 3.9% compared to the prior year. In February 2014, the Company expanded its annuity product portfolio by introducing a fixed indexed annuity contract. This new product continues to be well received by the Company's customers and represented approximately one-third of total annuity sales for the first nine months of both 2016 and 2015, largely single premium and rollover deposits. Previously, the Company offered indexed annuity products underwritten by third-party vendors.

The Company's introduction of new educator-focused portfolios of term and whole life products in recent years, including a single premium whole life product, as well as the October 2015 introduction of the Company's Indexed Universal Life product have contributed to an increase in sales of proprietary life products. For the nine months ended September 30, 2016, sales of Horace Mann's proprietary life insurance products totaled \$10.7 million, representing an increase of 44.6%, or \$3.3 million, compared to the prior year, including an increase of \$2.3 million for single premium sales.

Distribution

At September 30, 2016, there was a combined total of 669 Exclusive Agencies and Employee Agents, compared to 735 at December 31, 2015 and 701 at September 30, 2015. The Company continues to expect higher quality standards for agents and agencies to focus on improving both customer experiences and agent productivity in their respective territories. Growth in new automobile sales and life sales reflects improvement in average agency productivity. The dedicated sales force is supported by the Company's Customer Contact Center which provides a means for educators to begin their experience directly with the Company, if that is their preference. The Customer Contact Center is also able to assist educators in territories which are not currently served by an Exclusive Agency.

As mentioned above, the Company also utilizes a nationwide network of Independent Agents who comprise an additional distribution channel for the Company's 403(b) tax-qualified annuity products. The Independent Agent distribution channel included 521 authorized agents at September 30, 2016. During the first nine months of 2016, this channel generated \$25.9 million in annualized new annuity sales for the Company compared to \$28.5 million for the first nine months of 2015, with the new business primarily comprised of single and rollover deposit business in both periods.

Net Investment Income

For the three months ended September 30, 2016, pretax net investment income of \$94.9 million increased 17.2%, or \$13.9 million, (16.0%, or \$8.7 million, after tax) compared to the same period in the prior year. Pretax net investment income of \$270.7 million for the nine months ended September 30, 2016 increased 9.0%, or \$22.4 million, (8.3%, or \$13.8 million, after tax) compared to the prior year. The increase primarily reflected growth in the size of the average investment portfolio on an amortized cost basis and continued managed performance in the fixed maturity portfolios considering the low interest rate environment, partially offset by a decline in the average fixed maturity securities portfolio yield. In addition, net investment income in the three and nine months ended September 30, 2016 benefited from an increase in gains on investment prepayments, as well as favorable returns on the Company's alternative investment portfolio. Average invested assets increased 5.7% over the 12 months ended September 30, 2016. The average pretax yield on the total investment portfolio was 5.25% (3.50% after tax) for the first nine months of 2016, compared to the pretax yield of 5.09% (3.41% after tax) a year earlier. During the first nine months of 2016,

management continued to identify and purchase investments, including a modest level of alternative investments, with attractive risk-adjusted yields without venturing into asset classes or individual securities that would be inconsistent with the Company's overall conservative investment guidelines.

Net Realized Investment Gains and Losses (Pretax)

For the three months ended September 30, 2016, net realized investment gains were \$4.0 million compared to net realized investment gains of \$1.3 million in the same period in the prior year. For the nine months, net realized investment gains were \$6.9 million in 2016 compared to net realized investment gains of \$8.8 million in the prior year. The net gains and losses in both periods were realized primarily from ongoing investment portfolio management activity and, when determined, the recording of impairment write-down charges.

For the first nine months of 2016, the Company's net realized investment gains of \$6.9 million included \$19.2 million of gross gains realized on security sales and calls partially offset by \$4.9 million of realized losses primarily on securities that were disposed of during the nine months and \$7.4 million of impairment charges recorded largely on Puerto Rico and energy sector fixed maturity securities, as well as some equity securities.

For the first nine months of 2015, the Company's net realized investment gains of \$8.8 million included \$32.5 million of gross gains realized on security sales and calls partially offset by \$7.2 million of realized losses on securities that were disposed of during the nine months and \$16.5 million of impairment charges recorded largely on Puerto Rico and energy sector fixed maturity securities and one unrelated equity security. Of the year-to-date impairment charges, \$3.5 million was recorded in the third quarter of 2015.

The Company, from time to time, sells securities subsequent to the balance sheet date that were considered temporarily impaired at the balance sheet date. Such sales are due to issuer specific events occurring subsequent to the balance sheet date that result in a change in the Company's intent to sell an invested asset.

Fixed Maturity Securities and Equity Securities Portfolios

The table below presents the Company's fixed maturity securities and equity securities portfolios by major asset class, including the ten largest sectors of the Company's corporate bond holdings (based on fair value). Compared to December 31, 2015, credit spreads were tighter across most asset classes at September 30, 2016 and U.S. Treasury rates decreased, which resulted in an increase in net unrealized gains for virtually all classes of the Company's fixed maturity securities holdings.

	September 30, 2016			
	Number of Issuers	Fair Value	Amortized Cost or Cost	Pretax Net Unrealized Gain
Fixed maturity securities				
Corporate bonds				
Banking and Finance	99	\$ 728.6	\$ 682.1	\$ 46.5
Insurance	50	246.3	219.9	26.4
Energy (1)	50	217.0	199.5	17.5
Real estate	37	208.7	193.9	14.8
Healthcare, Pharmacy	38	178.6	163.0	15.6
Utilities	39	174.0	148.3	25.7
Technology	24	166.2	157.2	9.0
Transportation	25	160.2	148.7	11.5
Telecommunications	22	147.3	133.8	13.5
Broadcasting and Media	27	89.6	80.0	9.6
All Other Corporates (2)	170	637.0	594.7	42.3
Total corporate bonds	581	2,953.5	2,721.1	232.4
Mortgage-backed securities				
U.S. Government and federally sponsored agencies	362	472.1	419.6	52.5
Commercial (3)	107	431.5	414.8	16.7
Other	29	58.6	55.5	3.1
Municipal bonds (4)	564	1,778.7	1,555.3	223.4
Government bonds				
U.S.	9	488.1	449.0	39.1
Foreign	14	79.8	71.4	8.4
Collateralized debt obligations (5)	110	650.4	646.4	4.0
Asset-backed securities	98	581.4	574.5	6.9
Total fixed maturity securities	1,874	\$ 7,494.1	\$ 6,907.6	\$ 586.5
Equity securities				
Non-redeemable preferred stocks	12	\$ 46.3	\$ 44.2	\$ 2.1
Common stocks	171	70.3	60.6	9.7

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Closed-end fund	1	21.0	20.0	1.0
Total equity securities	184	\$ 137.6	\$ 124.8	\$ 12.8
Total	2,058	\$ 7,631.7	\$ 7,032.4	\$ 599.3

(1) At September 30, 2016, the fair value amount included \$15.6 million which were non-investment grade.

The All Other Corporates category contains 19 additional industry classifications. Consumer products, food and

(2) beverage, natural gas, retail, gaming and metal and mining represented \$444.5 million of fair value at September 30, 2016, with the remaining 13 classifications each representing less than \$46 million.

(3) At September 30, 2016, 100.0% were investment grade, with an overall credit rating of AA, and the positions were well diversified by property type, geography and sponsor.

Holdings are geographically diversified, approximately 40% are tax-exempt and 80% are revenue bonds tied to

(4) essential services, such as mass transit, water and sewer. The overall credit quality of the municipal bond portfolio was AA- at September 30, 2016.

(5) Based on fair value, 96% of the collateralized debt obligation securities were rated investment grade by Standard and Poor's Corporation ("S&P") and/or Moody's Investors Service, Inc. ("Moody's") at September 30, 2016.

At September 30, 2016, the Company's diversified fixed maturity securities portfolio consisted of 2,375 investment positions, issued by 1,874 entities, and totaled approximately \$7.5 billion in fair value. This portfolio was 96.1% investment grade, based on fair value, with an average quality rating of A. The Company's investment guidelines generally limit single corporate issuer concentrations to 0.5% of invested assets for "AA" or "AAA" rated securities, 0.35% of invested assets for "A" or "BBB" rated securities, and 0.2% of invested assets for non-investment grade securities.

The following table presents the composition and value of the Company's fixed maturity securities and equity securities portfolios by rating category. At September 30, 2016, 95.0% of these combined portfolios were investment grade, based on fair value, with an overall average quality rating of A. The Company has classified the entire fixed maturity securities and equity securities portfolios as available for sale, which are carried at fair value.

Rating of Fixed Maturity Securities and Equity Securities (1)

	Percent of Portfolio		September 30, 2016		Fair Value	Amortized Cost or Cost
	Fair Value December 31, 2015	September 30, 2016	Fair Value			
Fixed maturity securities						
AAA	7.0 %	7.8 %	\$584.5		\$ 556.9	
AA (2)	36.1	35.2	2,639.1		2,393.2	
A	23.9	23.7	1,776.4		1,619.3	
BBB	29.5	29.4	2,200.9		2,049.9	
BB	2.1	2.0	152.9		149.6	
B	0.9	1.0	75.2		77.7	
CCC or lower	0.1	0.2	12.4		14.5	
Not rated (3)	0.4	0.7	52.7		46.5	
Total fixed maturity securities	100.0 %	100.0 %	\$7,494.1		\$ 6,907.6	
Equity securities						
AAA	-	-	-		-	
AA	-	-	-		-	
A	-	-	-		-	
BBB	35.2 %	33.7 %	\$46.4		\$ 44.3	
BB	-	-	*		*	
B	-	-	-		-	
CCC or lower	-	-	-		-	
Not rated	64.8	66.3	91.2		80.5	
Total equity securities	100.0 %	100.0 %	\$137.6		\$ 124.8	
Total			\$7,631.7		\$ 7,032.4	

*Less than \$0.1 million.

Ratings are as assigned primarily by S&P when available, with remaining ratings as assigned on an equivalent (1) basis by Moody's. Ratings for publicly traded securities are determined when the securities are acquired and are updated monthly to reflect any changes in ratings.

At September 30, 2016, the AA rated fair value amount included \$488.1 million of U.S. Government and federally (2) sponsored agency securities and \$520.9 million of mortgage- and asset-backed securities issued by U.S. Government and federally sponsored agencies.

(3) This category primarily represents private placement and municipal securities not rated by either S&P or Moody's.

At September 30, 2016, the fixed maturity securities and equity securities portfolios had a combined \$23.2 million pretax of gross unrealized losses on \$787.6 million fair value related to 308 positions. Of the investment positions (fixed maturity securities and equity securities) with gross unrealized losses, 13 were trading below 80% of book value at September 30, 2016 and were not considered other-than-temporarily impaired. These positions had fair value of \$23.2 million, representing 0.3% of the Company's total investment portfolio at fair value, and had a gross unrealized loss of \$8.0 million.

The Company views the unrealized losses of all of the securities at September 30, 2016 as temporary. Future changes in circumstances related to these and other securities could require subsequent recognition of other-than-temporary impairment losses.

Benefits, Claims and Settlement Expenses

	Three Months Ended		Change From		Nine Months Ended		Change From	
	September 30, 2016	2015	Prior Year Percent	Amount	September 30, 2016	2015	Prior Year Percent	Amount
Property and casualty	\$116.0	\$102.7	13.0%	\$ 13.3	\$347.0	\$311.4	11.4%	\$ 35.6
Annuity	1.4	1.0	40.0%	0.4	3.1	1.9	63.2%	1.2
Life	18.3	17.4	5.2 %	0.9	53.5	54.8	-2.4 %	(1.3)
Total	\$135.7	\$121.1	12.1 %	\$ 14.6	\$403.6	\$368.1	9.6 %	\$ 35.5
Property and casualty catastrophe losses, included above (1)	\$8.4	\$5.0	68.0%	\$ 3.4	\$48.4	\$36.8	31.5%	\$ 11.6

(1) See footnote (1) to the table below.

Property and Casualty Claims and Claim Expenses ("losses")

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Incurred claims and claim expenses:				
Claims occurring				

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in the current year	\$116.7	\$105.5	\$351.3	\$321.4
Decrease in estimated reserves for claims occurring in prior years (2)	(0.7)	(2.8)	(4.3)	(10.0)
Total claims and claim expenses incurred	\$116.0	\$102.7	\$347.0	\$311.4
Property and casualty loss ratio:				
Total	74.5 %	68.8 %	75.2 %	70.2 %
Effect of catastrophe costs, included above (1)	5.3 %	3.4 %	10.5 %	8.3 %
Effect of prior years' reserve development, included above (2)	-0.4 %	-1.9 %	-0.9 %	-2.3 %

(1)Property and casualty catastrophe losses were incurred as follows:

	2016	2015
Three months ended		
March 31	\$12.7	\$ 10.5
June 30	27.3	21.3
September 30	8.4	5.0
Total year-to-date	\$48.4	\$ 36.8

Shows the amounts by which the Company decreased its reserves in each of the periods indicated for claims (2)occurring in previous years to reflect subsequent information on such claims and changes in their projected final settlement costs.

	2016	2015
Three months ended		
March 31	\$(2.0)	\$(4.0)
June 30	(1.6)	(3.2)
September 30	(0.7)	(2.8)
Total year-to-date	\$(4.3)	\$(10.0)

For the three months ended September 30, 2016, the Company's benefits, claims and settlement expenses increased \$14.6 million, or 12.1%, compared to the prior year due to the increase in the property and casualty segment. Catastrophe losses increased \$3.4 million compared to the prior year, including automobile flood-related losses in Louisiana and other severe weather in the current period. Non-catastrophe weather also contributed to increases in property and casualty current accident year loss frequencies -- for both automobile and homeowners. Included in the third quarter 2016 property and casualty segment amount was approximately \$1 million of unfavorable development of first and second quarter 2016 automobile weather-related losses. For the life segment, life mortality costs were \$0.4 million lower than the third quarter of 2015. Variability in the Company's life mortality experience is not unexpected considering the moderate size of Horace Mann's life insurance in force.

For the nine months ended September 30, 2016, the Company's benefits, claims and settlement expenses increased \$35.5 million, or 9.6%, compared to the prior year primarily reflecting increases in property and casualty current accident year loss severity and frequency -- specifically, in automobile -- and catastrophe costs, partially offset by a reduction in homeowners current accident year non-catastrophe losses and a \$2.6 million decrease in life mortality costs.

For the first nine months of 2016, the favorable development of prior years' property and casualty reserves of \$4.3 million was the result of actual and remaining projected losses for prior years being below the level anticipated in the immediately preceding December 31 loss reserve estimate and was primarily the result of favorable severity trends in homeowners loss emergence for accident years 2014 and prior.

For the first nine months of 2015, the favorable development of prior years' property and casualty reserves of \$10.0 million was the result of actual and remaining projected losses for prior years being below the level anticipated in the December 31, 2014 loss reserve estimate and was primarily for accident years 2013 and prior and predominantly the result of favorable severity trends in homeowners loss emergence and favorable severity and frequency trends in automobile loss emergence.

For the nine months ended September 30, 2016, the automobile loss ratio of 79.3% increased by 6.4 percentage points compared to the prior year, including (1) the impacts of higher current accident year non-catastrophe losses for 2016 primarily driven by loss severity and accompanied by an increase in loss frequencies and (2) development of prior years' reserves that had a 1.4 percentage point less favorable impact in the current year, partially offset by the favorable impact of rate actions taken in recent years. The homeowners loss ratio of 66.7% for the nine months ended September 30, 2016 increased 1.2 percentage points compared to a year earlier, including favorable current accident year non-catastrophe experience with favorable development of prior years' reserves having a similar impact in both periods. Catastrophe costs represented 25.9 percentage points of the homeowners loss ratio for the current nine months compared to 22.7 percentage points for the prior year period.

Interest Credited to Policyholders

	Three Months Ended		Change From		Nine Months Ended		Change From	
	September 30, 2016	2015	Percent	Amount	September 30, 2016	2015	Percent	Amount
Annuity	\$37.4	\$35.1	6.6%	\$ 2.3	\$109.4	\$103.0	6.2%	\$ 6.4
Life	11.2	11.1	0.9%	0.1	33.5	33.1	1.2%	0.4
Total	\$48.6	\$46.2	5.2%	\$ 2.4	\$142.9	\$136.1	5.0%	\$ 6.8

For the three and nine months ended September 30, 2016, interest credited increased approximately 5% compared to the same periods in 2015. Compared to the first nine months of 2015, the current year increase in annuity segment interest credited reflected a 7.8% increase in average accumulated fixed deposits, partially offset by a 2 basis point decline in the average annual interest rate credited to 3.54%. Life insurance interest credited increased slightly as a result of the growth in reserves for life insurance products with account values.

The net interest spread on fixed annuity assets under management measures the difference between the rate of income earned on the underlying invested assets and the rate of interest which policyholders are credited on their account values. The annualized net interest spreads for the nine months ended September 30, 2016 and 2015, were 195 basis points and 185 basis points, respectively. The interest spread increased due to an increase in gains on investment prepayments as well as favorable returns within the Company's alternative investment portfolio and a continuation of disciplined crediting rate management, partially offset by pressures of the low interest rate environment.

As of September 30, 2016, fixed annuity account values totaled \$4.4 billion, including \$4.2 billion of deferred annuities. As shown in the table below, for approximately 87%, or \$3.6 billion of the deferred annuity account values, the credited interest rate was equal to the minimum guaranteed rate. Due to limitations on the Company's ability to further lower interest crediting rates, coupled with the expectation for continued low reinvestment interest rates, management anticipates fixed annuity spread compression in future periods. The majority of assets backing the net interest spread on fixed annuity business is invested in fixed maturity securities.

The Company actively manages its interest rate risk exposure, considering a variety of factors, including earned interest rates, credited interest rates and the relationship between the expected durations of assets and liabilities. Management estimates that over the next 12 months approximately \$490 million of the annuity segment and life segment combined investment portfolio and related investable cash flows will be reinvested at current market rates. As interest rates remain at low levels, borrowers may prepay or redeem the securities with greater frequency in order to borrow at lower market rates, which could increase investable cash flows and exacerbate the reinvestment risk. As a general guideline, for a 100 basis point decline in the average reinvestment rate and based on the Company's existing

policies and investment portfolio, the impact from investing in that lower interest rate environment could further reduce annuity segment net investment income by approximately \$1.9 million in year one and \$5.6 million in year two, further reducing the net interest spread by approximately 5 basis points and 11 basis points in the respective periods, compared to the current period annualized net interest spread. The Company could also consider potential changes in rates credited to policyholders, tempered by any restrictions on the ability to adjust policyholder rates due to minimum guaranteed crediting rates.

segment, unlocking resulted in an immaterial change in amortization at both September 30, 2016 and 2015.

Amortized policy acquisition expenses were \$73.1 million for the first nine months of 2016 compared to \$73.4 million for the same period in 2015. The change included a decrease of \$1.1 million attributable to the annuity segment including the impact of the unlocking of deferred policy acquisition costs (“unlocking”). In addition, increases in the annuity and property and casualty segments in the first nine months of 2016 reflected the growth in premiums and related commissions for each segment. At September 30, 2016, annuity segment unlocking resulted in a \$0.6 million increase in amortization compared to a \$1.9 million increase in amortization in the prior year, for both periods the impact was largely due to financial market performance. For the life segment, unlocking resulted in an immaterial change in amortization at both September 30, 2016 and 2015.

Operating Expenses

For the three months ended September 30, 2016, operating expenses of \$44.5 million increased \$4.8 million, or 12.1%, compared to the third quarter of 2015.

For the first nine months of 2016, operating expenses of \$130.6 million increased \$15.0 million, or 13.0%, compared to the same period in the prior year. In 2015, year to date expenses reflected a reduction in incentive compensation expense (recorded in the first quarter) with the majority of the cost reduction benefiting the property and casualty segment. The current period expense level was consistent with management's expectations as the Company makes expenditures related to customer service and infrastructure improvements, which are intended to enhance the overall customer experience and support favorable policy retention and business cross-sale ratios.

The property and casualty expense ratio of 27.2% for the nine months ended September 30, 2016 increased 0.9 percentage points compared to the prior year expense ratio of 26.3%, consistent with management's expectations for the current period. The 2015 incentive compensation expense reduction reduced the expense ratio for the nine months by 0.5 percentage points.

Income Tax Expense

The effective income tax rate on the Company's pretax income, including net realized investment gains and losses, was 26.6% and 28.7% for the nine months ended September 30, 2016 and 2015, respectively. Income from investments in tax-advantaged securities reduced the effective income tax rates 7.4 percentage points for both the nine months ended September 30, 2016 and 2015. In 2016, income tax expense was reduced by approximately \$1.5 million related to the filing of the prior calendar year tax return; this item primarily benefited the annuity segment.

The Company records liabilities for uncertain tax filing positions where it is more likely than not that the position will not be sustainable upon audit by taxing authorities. These liabilities are reevaluated routinely and are adjusted appropriately based on changes in facts or law. The Company has no unrecorded liabilities from uncertain tax filing positions.

At September 30, 2016, the Company's federal income tax returns for years prior to 2013 are no longer subject to examination by the IRS. Management does not anticipate any assessments for tax years that remain subject to examination to have a material effect on the Company's financial position or results of operations.

Net Income

For the three months ended September 30, 2016, the Company's net income of \$26.9 million represented an increase of \$5.0 million compared to the prior year. For the nine months ended September 30, 2016, the Company's net income of \$63.9 million represented a decrease of \$8.5 million as investment income growth, improvements in current accident year non-catastrophe results for homeowners and a reduced level of life mortality losses were more than offset by a higher level of catastrophe losses, pressure on automobile current accident year loss experience, and a \$1.7 million reduction in net realized investment gains compared to the prior year. Additional detail is included in the "Executive Summary" at the beginning of this MD&A.

Net income (loss) by segment and net income per share were as follows:

	Three Months Ended		Change From		Nine Months Ended		Change From	
	September 30, 2016	2015	Prior Year Percent	Amount	September 30, 2016	2015	Prior Year Percent	Amount
Analysis of net income (loss) by segment:								
Property and casualty	\$6.7	\$11.2	-40.2 %	\$(4.5)	\$16.0	\$32.1	-50.2 %	\$(16.1)
Annuity	15.7	8.7	80.5 %	7.0	39.3	33.0	19.1 %	6.3
Life	4.6	3.6	27.8 %	1.0	13.1	10.6	23.6 %	2.5
Corporate and other (1)	(0.1)	(1.6)	-93.8 %	1.5	(4.5)	(3.3)	36.4 %	(1.2)
Net income	\$26.9	\$21.9	22.8 %	\$5.0	\$63.9	\$72.4	-11.7 %	\$(8.5)
Effect of catastrophe costs, after tax, included above	\$(5.5)	\$(3.3)	66.7 %	\$(2.2)	\$(31.5)	\$(23.9)	31.8 %	\$(7.6)
Effect of realized investment gains (losses), after tax, included above	\$2.7	\$0.7	N.M.	\$2.0	\$3.8	\$5.5	-30.9 %	\$(1.7)
Diluted:								
Net income per share	\$0.65	\$0.52	25.0 %	\$0.13	\$1.55	\$1.71	-9.4 %	\$(0.16)
Weighted average number of shares and equivalent shares (in millions)	41.3	42.3	-2.4 %	(1.0)	41.4	42.4	-2.4 %	(1.0)
Property and casualty combined ratio:								
Total	101.5 %	95.4 %	N.M.	6.1 %	102.4 %	96.5 %	N.M.	5.9 %
Effect of catastrophe costs, included above	5.3 %	3.4 %	N.M.	1.9 %	10.5 %	8.3 %	N.M.	2.2 %
Effect of prior years'								

reserve development, included above	-0.4 %	-1.9 %	N.M.	1.5 %	-0.9 %	-2.3 %	N.M.	1.4 %
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N.M. - Not meaningful.

The corporate and other segment includes interest expense on debt, realized investment gains and losses, corporate debt retirement costs (when applicable), certain public company expenses and other corporate-level items. The (1) Company does not allocate the impact of corporate-level transactions to the insurance segments, consistent with the basis for management's evaluation of the results of those segments.

As described in footnote (1) to the table above, the corporate and other segment reflects corporate-level transactions. Of those transactions, net realized investment gains and losses may vary notably between reporting periods and are often the driver of fluctuations in the level of this segment's net income or loss. For the nine months ended September 30, 2016, net realized investment gains after tax were \$3.8 million, compared to net realized investment gains of \$5.5 million a year earlier. In addition, the current period reflected a \$0.7 million pretax reduction in debt interest expense as a result of the refinancing transactions completed in 2015.

Return on average shareholders' equity based on net income was 6.3% and 7.7% for the trailing 12 months ended September 30, 2016 and 2015, respectively.

Outlook for 2016

At the time of this Quarterly Report on Form 10-Q, management estimates that 2016 full year net income before realized investment gains and losses* will be within a range of \$1.80 to \$1.90 per diluted share. This projection incorporates the Company's results for the first nine months of 2016, which benefited from strong investment results, including an increase in investment prepayment activity and favorable returns on alternative investments. Tempering this benefit, the Company's nine month earnings were impacted by a higher than anticipated level of weather-related catastrophe and non-catastrophe losses for the property and casualty segment. The anticipated income range also includes the Company's current estimate -- \$9 million to \$11 million -- of catastrophe losses related to Hurricane Matthew which occurred in October 2016. For full year 2016, the Company now anticipates its underlying property and casualty combined ratio* to be 1.5 to 2.5 percentage points higher than the result for full year 2015, as continued pressure from current accident year automobile loss frequency and severity and a modest increase in segment specific infrastructure expenses offset improvements in the property line. Net income for the annuity segment is anticipated to exceed full year 2015, reflecting favorable investment income partially offset by additional expenses -- compared to 2015 and as described below -- related to the Company's continued modernization of technology and infrastructure, as well as costs incurred to address regulatory changes. The net interest spread is anticipated to be in the mid-190s for full year 2016. Though life mortality experience was more favorable than anticipated for the first nine months of 2016, mortality costs continue to be consistent with the Company's actuarial models and life segment net income is expected to be comparable to 2015. In addition to the segment-specific factors, the Company's initiatives for customer service and infrastructure improvements, as well as enhanced training and education for the Company's agency force, all intended to enhance the overall customer experience and support further improvement in policy retention and business cross-sale ratios, will continue and result in a moderate increase in expense levels compared to 2015.

As described in "Critical Accounting Policies", certain of the Company's significant accounting measurements require the use of estimates and assumptions. As additional information becomes available, adjustments may be required. Those adjustments are charged or credited to income for the period in which the adjustments are made and may impact actual results compared to management's estimate above. Additionally, see "Forward-looking Information" in this Quarterly Report on Form 10-Q and "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 concerning other important factors that could impact actual results. Management believes that a projection of net income including realized investment gains and losses* is not appropriate on a forward-looking basis because it is not possible to provide a valid forecast of realized investment gains and losses, which can vary substantially from one period to another and may have a significant impact on net income.

Liquidity and Financial Resources

Off-Balance Sheet Arrangements

At September 30, 2016 and 2015, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, the Company is not exposed to any financing, liquidity, market or credit risk that could arise if the Company engaged in such relationships.

Investments

Information regarding the Company's investment portfolio, which is comprised primarily of investment grade, fixed income securities, is located in "Results of Operations -- Net Realized Investment Gains and Losses (Pretax)" and in the "Notes to Consolidated Financial Statements -- Note 2 -- Investments".

Cash Flow

The short-term liquidity requirements of the Company, within a 12 month operating cycle, are for the timely payment of claims and benefits to policyholders, operating expenses, interest payments and federal income taxes. Cash flow generated from operations has been, and is expected to be, adequate to meet the Company's operating cash needs in the next 12 months. Cash flow in excess of operational needs has been used to fund business growth, retire short-term debt, pay dividends to shareholders and repurchase shares of HMEC's common stock. Long-term liquidity requirements, beyond one year, are principally for the payment of future insurance and annuity policy claims and benefits, as well as retirement of long-term debt.

Operating Activities

As a holding company, HMEC conducts its principal operations in the personal lines segment of the property and casualty and life insurance industries through its subsidiaries. HMEC's insurance subsidiaries generate cash flow from premium and investment income, generally well in excess of their immediate needs for policy obligations, operating

expenses and other cash requirements. Cash provided by operating activities primarily reflects net cash generated by the insurance subsidiaries. For the first nine months of 2016, net cash provided by operating activities increased slightly compared to the same period in 2015, as an increase in investment income collected, as well as the increase in premiums collected in the current period were nearly offset by the increase in claims and policyholder benefits paid in the current period.

Payment of principal and interest on debt, dividends to shareholders and parent company operating expenses is largely dependent on the ability of the insurance subsidiaries to pay cash dividends or make other cash payments to HMEC, including tax payments pursuant to tax sharing agreements. Payments for share repurchase programs also have this dependency. If necessary, HMEC also has other potential sources of liquidity that could provide for additional funding to meet corporate obligations or pay shareholder dividends, which include a revolving line of credit, as well as issuances of various securities. The insurance subsidiaries are subject to various regulatory restrictions which limit the amount of annual dividends or other distributions, including loans or cash advances, available to HMEC

without prior approval of the insurance regulatory authorities. The aggregate amount of dividends that may be paid in 2016 from all of HMEC's insurance subsidiaries without prior regulatory approval is approximately \$90 million, of which \$54.6 million was paid during the nine months ended September 30, 2016. Although regulatory restrictions exist, dividend availability from subsidiaries has been, and is expected to be, adequate for HMEC's capital needs. Additional information is contained in "Notes to Consolidated Financial Statements -- Note 10 -- Statutory Information and Restrictions" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Investing Activities

HMEC's insurance subsidiaries maintain significant investments in fixed maturity securities to meet future contractual obligations to policyholders. In conjunction with its management of liquidity and other asset/liability management objectives, the Company, from time to time, will sell fixed maturity securities prior to maturity, as well as equity securities, and reinvest the proceeds in other investments with different interest rates, maturities or credit characteristics. Accordingly, the Company has classified the entire fixed maturity securities and equity securities portfolios as "available for sale".

Financing Activities

Financing activities include primarily payment of dividends, the receipt and withdrawal of funds by annuity contractholders, issuances and repurchases of HMEC's common stock, fluctuations in bank overdraft balances, and borrowings, repayments and repurchases related to its debt facilities.

The Company's annuity business produced net positive cash flows in the first nine months of 2016. For the nine months ended September 30, 2016, receipts from annuity contracts decreased \$30.3 million, or 7.2%, compared to the same period in the prior year, as described in "Results of Operations -- Insurance Premiums and Contract Charges". In total, annuity contract benefits, withdrawals and net of transfers from variable annuity accumulated cash values decreased \$17.6 million, or 6.8%, compared to the prior year.

Capital Resources

The Company has determined the amount of capital which is needed to adequately fund and support business growth, primarily based on risk-based capital formulas including those developed by the National Association of Insurance Commissioners (the "NAIC"). Historically, the Company's insurance subsidiaries have generated capital in excess of

such needed capital. These excess amounts have been paid to HMEC through dividends. HMEC has then utilized these dividends and its access to the capital markets to service and retire long-term debt, pay dividends to its shareholders, fund growth initiatives, repurchase shares of its common stock and for other corporate purposes. Management anticipates that the Company's sources of capital will continue to generate sufficient capital to meet the needs for business growth, debt interest payments, shareholder dividends and its share repurchase program. Additional information is contained in "Notes to Consolidated Financial Statements -- Note 10 -- Statutory Information and Restrictions" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The total capital of the Company was \$1,691.2 million at September 30, 2016, including \$247.1 million of long-term debt. Total debt represented 18.3% of total capital excluding unrealized investment gains and losses (14.6% including unrealized investment gains and losses) at September 30, 2016, which was below the Company's long-term target of 25%. Note that this information regarding long-term debt reflects the Company's January 1, 2016 adoption of new accounting guidance regarding the presentation of debt issuance costs as discussed in "Notes to Consolidated Financial Statements -- Note 1 -- Basis of Presentation -- Adopted Accounting Standards".

Shareholders' equity was \$1,444.1 million at September 30, 2016, including a net unrealized gain in the Company's investment portfolio of \$337.3 million after taxes and the related impact of deferred policy acquisition costs associated with investment contracts and life insurance products with account values. The market value of the Company's common stock and the market value per share were \$1,472.7 million and \$36.65, respectively, at September 30, 2016. Book value per share was \$35.94 at September 30, 2016 (\$27.54 excluding investment fair value adjustments*).

Additional information regarding the net unrealized gain in the Company's investment portfolio at September 30, 2016 is included in "Results of Operations -- Net Realized Investment Gains and Losses (Pretax)".

Total shareholder dividends were \$33.2 million for the nine months ended September 30, 2016. In March, May and September 2016, the Board of Directors announced regular quarterly dividends of \$0.265 per share.

During the first nine months of 2016, the Company repurchased 701,410 shares of its common stock, or 1.7% of the outstanding shares on December 31, 2015, at an aggregate cost of \$21.5 million, or an average price per share of \$30.65 under its share repurchase program, which is further described in "Notes to Consolidated Financial Statements -- Note 9 -- Shareholders' Equity and Common Stock Equivalents" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The repurchase of shares was funded through use of cash. As of September 30, 2016, \$29.5 million remained authorized for future share repurchases under the 2015 repurchase program. Utilization of the remaining authorization under the 2011 program was completed in January 2016.

As of September 30, 2016, the Company had outstanding \$250.0 million aggregate principal amount of 4.50% Senior Notes ("Senior Notes due 2025"), which will mature on December 1, 2025, issued at a discount resulting in an effective yield of 4.53%. Interest on the Senior Notes due 2025 is payable semi-annually at a rate of 4.50%. Detailed information regarding the redemption terms of the Senior Notes due 2025 is contained in the "Notes to Consolidated Financial Statements -- Note 7 -- Debt" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The Senior Notes due 2025 are traded in the open market (HMN 4.50).

As of September 30, 2016, the Company had no balance outstanding under its Bank Credit Facility. The Bank Credit Facility provides for unsecured borrowings of up to \$150.0 million and expires on July 30, 2019. Interest accrues at varying spreads relative to prime or Eurodollar base rates and is payable monthly or quarterly depending on the applicable base rate. The unused portion of the Bank Credit Facility is subject to a variable commitment fee, which was 0.15% on an annual basis at September 30, 2016.

To provide additional capital management flexibility, the Company filed a “universal shelf” registration on Form S-3 with the SEC on March 12, 2015. The registration statement, which registered the offer and sale by the Company from time to time of an indeterminate amount of various securities, which may include debt securities, common stock, preferred stock, depositary shares, warrants, delayed delivery contracts and/or units that include any of these securities, was automatically effective on March 12, 2015. Unless withdrawn by the Company earlier, this registration statement will remain effective through March 12, 2018. The Senior Notes due 2025, described above, were issued utilizing this registration statement. No other securities associated with the registration statement have been issued as of the date of this Quarterly Report on Form 10-Q.

Financial Ratings

HMEC’s principal insurance subsidiaries are rated by S&P, Moody’s, A.M. Best Company, Inc. (“A.M. Best”) and Fitch Ratings, Inc. (“Fitch”). These rating agencies have also assigned ratings to the Company’s long-term debt securities. The ratings that are assigned by these agencies, which are subject to change, can impact, among other things, the Company’s access to sources of capital, cost of capital, and competitive position. These ratings are not a recommendation to buy or hold any of the Company’s securities.

With the exception of the ratings by A.M. Best, assigned ratings as of October 31, 2016 were unchanged from the disclosure in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. In March 2016, A.M. Best upgraded the insurance financial strength rating of the Company’s property and casualty subsidiaries to “A (Excellent)” from “A- (Excellent)”. Assigned ratings were as follows (unless otherwise indicated, the insurance financial strength ratings for the Company’s property and casualty insurance subsidiaries and the Company’s principal life insurance subsidiary are the same):

	Insurance Financial Strength Ratings (Outlook)	Debt Ratings (Outlook)
As of October 31, 2016		
S&P	A (stable)	BBB (stable)
Moody’s		
Horace Mann Life Insurance Company	A3 (positive)	N.A.
HMEC’s property and casualty subsidiaries	A3 (stable)	N.A.
HMEC	N.A.	Baa3 (positive)
A.M. Best	A (stable)	bbb (stable)
Fitch	A (stable)	BBB (stable)

N.A. – Not applicable.

Reinsurance Programs

Information regarding the reinsurance program for the Company's property and casualty segment is located in "Business -- Property and Casualty Segment -- Property and Casualty Reinsurance" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Information regarding the reinsurance program for the Company's life segment is located in "Business -- Life Segment" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Market Value Risk

Market value risk, the Company's primary market risk exposure, is the risk that the Company's invested assets will decrease in value. This decrease in value may be due to (1) a change in the yields realized on the Company's assets and prevailing market yields for similar assets, (2) an unfavorable change in the liquidity of the investment, (3) an unfavorable change in the financial prospects of the issuer of the investment, or (4) a downgrade in the credit rating of the issuer of the investment. See also "Results of Operations -- Net Realized Investment Gains and Losses (Pretax)".

Significant changes in interest rates expose the Company to the risk of experiencing losses or earning a reduced level of income based on the difference between the interest rates earned on the Company's investments and the credited interest rates on the Company's insurance liabilities. See also "Results of Operations -- Interest Credited to Policyholders".

The Company seeks to manage its market value risk by coordinating the projected cash inflows of assets with the projected cash outflows of liabilities. For all its assets and liabilities, the Company seeks to maintain reasonable durations, consistent with the maximization of income without sacrificing investment quality, while providing for liquidity and diversification. The investment risk associated with variable annuity deposits and the underlying mutual funds is assumed by those contractholders, and not by the Company. Certain fees that the Company earns from variable annuity deposits are based on the market value of the funds deposited.

More detailed descriptions of the Company's exposure to market value risks and the management of those risks is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Market Value Risk" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Accounting Changes

Statement of Cash Flows -- Classification

In August 2016, the Financial Accounting Standards Board ("FASB") issued guidance to reduce diversity in practice in the statement of cash flows between operating, investing and financing activities related to the classification of cash receipts and cash payments for eight specific issues. The FASB acknowledged that current GAAP either is unclear or does not include specific guidance on these eight cash flow classification issues: (1) debt prepayment or extinguishment costs; (2) settlement of zero-coupon bonds (pertains to issuers); (3) contingent consideration payments

made after a business combination; (4) proceeds from the settlement of insurance claims (pertains to claimants); (5) proceeds from the settlement of corporate-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions (pertains to transferors) and (8) separately identifiable cash flows and application of the predominance principle. For public business entities, the guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those years, using a retrospective approach. The guidance allows prospective adoption for individual issues if it is impracticable to apply the amendments retrospectively for those issues. Early application is permitted. Management believes the adoption of this accounting guidance will not have a material effect on the classifications in the Company's consolidated statement of cash flows. The adoption of this accounting guidance will not have an effect on the results of operations or financial position of the Company.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued guidance to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments, including reinsurance receivables, held by companies. The new guidance replaces the incurred loss impairment methodology and requires an organization to measure and recognize all current expected credit losses (“CECL”) for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Companies will need to utilize forward-looking information to better inform their credit loss estimates. Companies will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Credit losses related to available for sale debt securities -- which represent over 90% of Horace Mann’s total investment portfolio -- will be recorded through an allowance for credit losses with this allowance having a limit equal to the amount by which fair value is below amortized cost. The guidance also requires enhanced qualitative and quantitative disclosures to provide additional information about the amounts recorded in the financial statements. For public business entities that are SEC filers, the guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those years, using a modified-retrospective approach. Early application is permitted for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. Management is evaluating the impact this guidance will have on the results of operations and financial position of the Company.

Employee Share-based Payment Accounting

In March 2016, the FASB issued guidance to simplify and improve the accounting for employee share-based payment transactions. Under the new guidance, several aspects of the accounting for share-based payment transactions are changed including: (1) the entire tax impact of the difference between the company’s share-based payment deduction for tax purposes and the compensation cost recognized in the financial statements (“excess tax benefits”) will be recorded in the income statement (the additional paid-in capital pool is eliminated) and classified with other income tax cash flows as an operating activity in the statement of cash flows; (2) election of an accounting policy regarding forfeitures, either retaining the current GAAP approach of estimating forfeitures or accounting for forfeitures when they occur; (3) companies may withhold up to the maximum individual statutory tax rate without triggering classification of the award as a liability; (4) cash paid to satisfy the statutory income tax withholding obligation is to be classified as a financing activity in the statement of cash flows; and (5) certain additional aspects which apply only to nonpublic entities. There are different approaches specified for transition to the new guidance encompassing prospective, retrospective and modified retrospective (cumulative-effect adjustment) approaches. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those years. Early application is permitted; however, all components of the guidance must be implemented at the same time. Management is evaluating the impact this guidance will have on the results of operations and financial position of the Company.

Accounting for Leases

In February 2016, the FASB issued accounting and disclosure guidance to improve financial reporting and comparability among organizations about leasing transactions. Under the new guidance, for leases with lease terms of more than 12 months, a lessee will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by those leases. Consistent with current accounting guidance, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or an operating lease. However, while current guidance requires only capital leases to be recognized on the balance sheet, the new guidance will require both operating and capital leases to be recognized on the balance sheet. In transition to the new guidance, companies are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those years. Early application is permitted. Management is evaluating the impact this guidance will have on the results of operations and financial position of the Company.

Recognition and Measurement of Financial Assets and Liabilities

In January 2016, the FASB issued accounting guidance to improve certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. Among other things, this guidance requires public entities to measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value with changes in fair value recognized in net income and to perform a qualitative assessment to identify impairment for equity investments without readily determinable fair values. Companies are required to apply this guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption and, for the guidance related to equity securities without readily determinable fair values, companies are required to apply a prospective approach to equity investments that exist as of the date of adoption. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those years. Early application is permitted. Management is evaluating the impact this guidance will have on the results of operations and financial position of the Company.

Disclosures About Short-Duration Insurance Contracts

In May 2015, the FASB issued accounting guidance which will require expanded disclosure regarding claims on short-duration insurance contracts, which will apply to the contracts in the Company's property and casualty segment. Disclosures are to include additional information about an entity's initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and the timing, frequency and severity of claims. The guidance requiring these additional disclosures is effective for annual periods beginning after December 15, 2015, and for interim periods within annual periods beginning after December 31, 2016. The adoption of this

accounting guidance will not have an effect on the results of operations or financial position of the Company.

Revenue Recognition

In May 2014, the FASB issued accounting guidance to provide a single comprehensive model in accounting for revenue arising from contracts with customers; in August 2015, the effective date was deferred for one year. The guidance applies to all contracts with customers; however, insurance contracts are specifically excluded. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those years. Early application is not permitted. Management believes the adoption of this accounting guidance will not have a material effect on the results of operations or financial position of the Company.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The information required by Item 305 of Regulation S-K is contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Market Value Risk” contained in this Quarterly Report on Form 10-Q.

Item 4: Controls and Procedures

Management’s Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as amended (the “Exchange Act”), as of September 30, 2016 pursuant to Rule 13a-15(b) of the Exchange Act. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) that is required to be included in the Company’s periodic Securities and Exchange Commission filings. No material weaknesses in the Company’s disclosure controls and procedures were identified in the evaluation and therefore, no corrective actions were taken. There were no significant changes in the Company’s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1A: Risk Factors

At the time of this Quarterly Report on Form 10-Q, management believes there are no material changes from the risk factors as previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The following risk factor is updated to reflect recent developments; however, in general the described risks are comparable to those previously disclosed.

The Department of Labor ("DOL") fiduciary rule and the possible adoption by the Securities and Exchange Commission ("SEC") of a fiduciary standard of care could have a material adverse effect on our business, financial condition and results of operations.

On April 6, 2016, the DOL released a final regulation which more broadly defines the types of activities that will result in a person being deemed a "fiduciary" for purposes of the prohibited transaction rules of the Employee Retirement Income Security Act ("ERISA") and Internal Revenue Code Section 4975. Section 4975 prohibits certain kinds of compensation with respect to transactions involving assets in certain accounts, including individual retirement accounts ("IRAs").

The DOL regulation provides that its requirements will generally become applicable on April 10, 2017, with certain requirements becoming applicable on January 1, 2018.

The DOL regulation will affect the ways in which financial services representatives can be compensated for sales to participants in ERISA employer-sponsored qualified plans and sales to IRA customers, and it will impose significant additional legal obligations and disclosure requirements. The DOL regulation could have a material adverse effect on our business and results of operations. While the regulation does not affect non-ERISA employer-sponsored qualified plans, such as public school 403(b) plans, it could have the following impacts, among others:

It could inhibit our ability to sell and service IRAs, resulting in a change and/or a reduction of the types of products we offer for IRAs, and impact our relationship with current clients.

It could require changes in the way that we compensate our agents, thereby impacting our agents' business model.

It could require changes in our distribution model for financial services products and could result in a decrease in the number of our agents.

·It could increase our costs of doing IRA business and increase our litigation and regulatory risks.

· It could increase the cost and complexity of regulatory compliance for our annuity products, including our recently introduced fixed indexed annuity product.

Further, in January 2011, under the authority of the Dodd-Frank Act, the SEC submitted a report to Congress recommending that the SEC adopt a fiduciary standard of conduct for broker-dealers. According to the SEC, notice of proposed rulemaking is anticipated in 2017. This regulatory activity by the SEC also has the potential to adversely impact our business, financial condition and results of operations.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On December 7, 2011 the Company's Board of Directors (the "Board") authorized a share repurchase program allowing repurchases of up to \$50.0 million of Horace Mann Educators Corporation's Common Stock, par value \$0.001 (the "2011 Plan"). On September 30, 2015, the Board authorized an additional share repurchase program allowing repurchases of up to \$50.0 million to begin following the completion of the 2011 Plan and utilization of that authorization began in January 2016. Both share repurchase programs authorize the repurchase of common shares in open market or privately negotiated transactions, from time to time, depending on market conditions. The current share repurchase program does not have an expiration date and may be limited or terminated at any time without notice. During the three months ended September 30, 2016, the Company did not repurchase shares of HMEC common stock. As of September 30, 2016, \$29.5 million remained authorized for future share repurchases.

Item 5: Other Information

The Company is not aware of any information required to be disclosed in a report on Form 8-K during the three months ended September 30, 2016 which has not been filed with the SEC.

Item 6: Exhibits

The following items are filed as Exhibits. Management contracts and compensatory plans are indicated by an asterisk (*).

Exhibit No.	Description
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(3) Articles of incorporation and bylaws:

3.1	Restated Certificate of Incorporation of HMEC, filed with the Delaware Secretary of State on June 24, 2003, incorporated by reference to Exhibit 3.1 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the Securities and Exchange Commission (the "SEC") on August 14, 2003.
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Form of Certificate for shares of Common Stock, \$0.001 par value per share, of HMEC, incorporated by reference to Exhibit 4.5 to HMEC's Registration Statement on Form S-3 (Registration No. 33-53118) filed with the SEC on October 9, 1992.

3.3	Bylaws of HMEC, incorporated by reference to Exhibit 3.2 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003.
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(4) Instruments defining the rights of security holders, including indentures:

4.1	Indenture, dated as of November 23, 2015, by and between HMEC and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to HMEC's Current Report on Form 8-K dated November 18, 2015, filed with the SEC on November 23, 2015.
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10.1(a) First Amendment to Credit Agreement dated as of November 16, 2015 among HMEC, certain financial institutions named therein and JPMorgan Chase Bank, N.A., as administrative agent, incorporated by reference to Exhibit 10.1(a) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016.

10.2* Horace Mann Educators Corporation Amended and Restated 2002 Incentive Compensation Plan ("2002 Incentive Compensation Plan"), incorporated by reference to Exhibit 10.2 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, filed with the SEC on August 9, 2005.

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10.2(b)* Specimen Employee Restricted Stock Unit Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(d) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on March 16, 2006.

10.2(c)* Revised Specimen Employee Restricted Stock Unit Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(f) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.

10.2(d)* Specimen Non-employee Director Restricted Stock Unit Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(e) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on March 16, 2006.

10.2(e)* Revised Specimen Non-employee Director Restricted Stock Unit Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(h) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.

10.3* HMEC 2010 Comprehensive Executive Compensation Plan As Amended and Restated, incorporated by reference to Exhibit 1 (beginning on page E-1) to HMEC's Proxy Statement, filed with the SEC on April 8, 2015.

10.3(a)* Specimen Incentive Stock Option Agreement for Section 16 Officers under the HMEC 2010 Comprehensive Executive Compensation Plan, incorporated by reference to Exhibit 10.7(a) to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed with the SEC on August 9, 2011.

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10.3(b)*	Specimen Incentive Stock Option Agreement for Non-Section 16 Officers under the HMEC 2010 Comprehensive Executive Compensation Plan, incorporated by reference to Exhibit 10.7(b) to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed with the SEC on August 9, 2011.
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10.4*	Horace Mann Supplemental Employee Retirement Plan, 2002 Restatement, incorporated by reference to Exhibit 10.1 to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, filed with the SEC on May 15, 2002.
10.5*	Horace Mann Executive Supplemental Employee Retirement Plan, 2002 Restatement, incorporated by reference to Exhibit 10.2 to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, filed with the SEC on May 15, 2002.
10.6*	Amended and Restated Horace Mann Nonqualified Supplemental Money Purchase Pension Plan, incorporated by reference to Exhibit 10.9 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.
10.7*	Summary of HMEC Non-employee Director Compensation, incorporated by reference to Exhibit 10.7 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the SEC on August 5,

2016.

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Exhibit
No. Description

Summary of HMEC Named Executive Officer Annualized Salaries incorporated by reference to Exhibit 10.8 to 10.8* HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the SEC on May 6, 2016.

Form of Severance Agreement between HMEC, Horace Mann Service Corporation ("HMSC") and certain officers 10.9* of HMEC and/or HMSC, incorporated by reference to Exhibit 10.13 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on February 28, 2013.

Revised Schedule to Severance Agreements between HMEC, HMSC and certain officers of HMEC and/or 10.9(a)* HMSC, incorporated by reference to Exhibit 10.9(a) to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the SEC on August 5, 2016.

HMSC Executive Change in Control Plan, incorporated by reference to Exhibit 10.15 to HMEC's Current 10.10* Report on Form 8-K dated February 15, 2012, filed with the SEC on February 22, 2012.

HMSC Executive Change in Control Plan Schedule A Plan Participants incorporated by reference to Exhibit 10.10(a)* 10.10(a) to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the SEC on May 6, 2016.

HMSC Executive Severance Plan, incorporated by reference to Exhibit 10.16 to HMEC's Current Report on 10.11* Form 8-K dated March 7, 2012, filed with the SEC on March 13, 2012.

First Amendment to the HMSC Executive Severance Plan, incorporated by reference to Exhibit 10.16(a) to 10.11(a)* HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 9, 2012.

HMSC Executive Severance Plan Schedule A Participants incorporated by reference to Exhibit 10.11(b) to 10.11(b)* HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the SEC on May 6, 2016.

(11) Statement regarding computation of per share earnings.

(15) KPMG LLP letter regarding unaudited interim financial information.

Exhibit
No. Description

(31) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.1 Certification by Marita Zuraitis, Chief Executive Officer of HMEC.

31.2 Certification by Dwayne D. Hallman, Chief Financial Officer of HMEC.

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(99) Additional exhibits

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(101) Interactive Data File

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HORACE MANN EDUCATORS CORPORATION
(Registrant)

Date November 8, 2016 /s/ Marita Zuraitis

Marita Zuraitis
President and Chief Executive Officer

Date November 8, 2016 /s/ Dwayne D. Hallman

Dwayne D. Hallman
Executive Vice President
and Chief Financial Officer

Date November 8, 2016 /s/ Bret A. Conklin

Bret A. Conklin
Senior Vice President
and Controller

HORACE MANN EDUCATORS CORPORATION

EXHIBITS

To

FORM 10-Q

For the Quarter Ended September 30, 2016

VOLUME 1 OF 1

The following items are filed as Exhibits to Horace Mann Educators Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016. Management contracts and compensatory plans are indicated by an asterisk (*).

EXHIBIT INDEX

Exhibit No.	Description
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(3) Articles of incorporation and bylaws:

3.1 Restated Certificate of Incorporation of HMEC, filed with the Delaware Secretary of State on June 24, 2003, incorporated by reference to Exhibit 3.1 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the Securities and Exchange Commission (the "SEC") on August 14, 2003.

3.2 Form of Certificate for shares of Common Stock, \$0.001 par value per share, of HMEC, incorporated by reference to Exhibit 4.5 to HMEC's Registration Statement on Form S-3 (Registration No. 33-53118) filed with the SEC on October 9, 1992.

3.3 Bylaws of HMEC, incorporated by reference to Exhibit 3.2 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003.

(4) Instruments defining the rights of security holders, including indentures:

4.1 Indenture, dated as of November 23, 2015, by and between HMEC and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to HMEC's Current Report on Form 8-K dated November 18, 2015, filed with the SEC on November 23, 2015.

4.1(a) Form of HMEC 4.5000% Senior Notes due 2025, incorporated by reference to Exhibit 4.2 to HMEC's Current Report on Form 8-K dated November 18, 2015, filed with the SEC on November 23, 2015.

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Certificate of Designations for HMEC Series A Cumulative Convertible Preferred Stock, incorporated by reference to Exhibit 4.3 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on March 16, 2006.

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