

WD 40 CO
Form 10-K
October 22, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 2012

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission File Number: 000-06936

WD-40 COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-1797918 (I.R.S. Employer Identification No.)
1061 Cudahy Place, San Diego, California (Address of principal executive offices)	92110 (Zip code)
Registrant's telephone number, including area code: (619) 275-1400	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

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None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value (closing price) of the voting stock held by non-affiliates of the registrant as of February 29, 2012 was approximately \$640,924,854.

As of October 15, 2012, there were 15,715,835 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference:

The Proxy Statement for the annual meeting of stockholders on December 11, 2012 is incorporated by reference into Part III, Items 10 through 14 of this Annual Report on Form 10-K.

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For the
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PART I

This Annual Report on Form 10-K contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are forward-looking statements which reflect the Company's current views with respect to future events and financial performance.

These forward-looking statements are subject to certain risks and uncertainties. The words aim, believe, expect, anticipate, intend, estimate, and other expressions that indicate future events and trends identify forward-looking statements. These statements include, but are not limited to, references to the near-term growth expectations for multi-purpose maintenance products and homecare and cleaning products, the impact of changes in product distribution, competition for shelf space, the impact of competition on product pricing, the level of promotional and advertising spending, plans for and success of product innovation, the impact of new product introductions on the growth of sales, the impact of customer mix and costs of raw materials, components and finished goods costs on gross margins, the impact of promotional programs on sales, the rate of sales growth in the Asia-Pacific segment, direct European countries and Eastern and Northern Europe, foreign currency exchange rates and fluctuations in those rates, the impact of changes in inventory management, the effect of future income tax provisions and audit outcomes on tax rates, and the effects of, and changes in, worldwide economic conditions and legal proceedings and other risk factors identified in Item 1A of this report. The Company undertakes no obligation to revise or update any forward-looking statements.

As used in this report, the terms we, our, us and the Company refer to WD-40 Company and its wholly-owned subsidiaries, unless the context suggests otherwise. Amounts and percents in tables and discussions may not total due to rounding.

Item 1. Business

Overview

WD-40 Company is a global consumer products company dedicated to delivering unique, high value and easy-to-use solutions for a wide variety of maintenance needs of doer and on-the-job users by leveraging and building the brand fortress of the Company. The Company was founded in 1953 and its headquarters are located in San Diego, California. For more than four decades, the Company sold only one product, WD-40®, a multi-purpose maintenance product which acts as a lubricant, rust preventative, penetrant, cleaner and moisture displacer. Over the years, the Company has further developed the WD-40 brand and acquired several brands worldwide, many of which have been homecare and cleaning product brands, in order to build a fortress of brands that deliver a unique high value to end users. In addition, some of these brand acquisitions have provided the Company with access to existing distribution channels for other of its existing brands and have also provided the Company with economies of scale in areas such as sales, manufacturing and administration. The Company's acquisitions include the following:

3-IN-ONE® brand of general purpose and specialty maintenance products in fiscal year 1996;

Lava® brand of heavy-duty hand cleaners in fiscal year 1999;

2000 Flushes® automatic toilet bowl cleaners, X-14® automatic toilet bowl cleaners and Carpet Fresh® rug and room deodorizers, all of which were associated with the Global Household Brands acquisition, and Solvol® brand of heavy-duty hand cleaners in Australia in fiscal year 2001;

Spot Shot® brand, whose primary product was a carpet stain remover; in fiscal year 2002; and

1001® line of carpet and household cleaners in the United Kingdom (U.K.) in fiscal year 2004.

The Company is focused on and committed to innovation and renovation of its products. The Company sees innovation and renovation as important factors to the long-term growth of its brands, and it intends to continue to work on future product, packaging and promotional innovations and renovations. The Company is also focused

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on expanding its current brands in existing markets with new product development. The Company's product development team, Team Tomorrow, supports new product development and current product improvement for the Company's brands. Since its inception in fiscal year 2003, Team Tomorrow has made an innovation impact on most of the Company's brands. Key innovations for the Company's products include, but are not limited to, WD-40 Smart Straw®, WD-40 Trigger Pro®, 3-IN-ONE Professional Garage Door Lube, Spot Shot Pet Clean which is a non-aerosol Spot Shot trigger product, Blue Works® product line, and a mildew stain remover under the X-14 brand. In addition, the Company launched a new WD-40 Specialist® product line, which consists of certain specialty maintenance products aimed at an expanded group of end users that currently uses WD-40 multi-use product, during fiscal year 2011. The Company also formed WD-40 Bike Company LLC, a new business unit focused on the development of a comprehensive line of bicycle maintenance products for cyclists and mechanics, during the fourth quarter of fiscal year 2012. The Company will start to launch certain products in the WD-40 Bike product line in the United States (U.S.) during the first quarter of fiscal year 2013.

The Company's core strategic initiatives and the areas where it will continue to focus its time, talent and resources in future periods include: (i) maximizing the WD-40 brand through geographic expansion and market penetration; (ii) becoming the global leader in the Company's product categories within our prioritized platforms; (iii) developing strategic business relationships; (iv) pursuing global innovation efforts; and (v) attracting, developing and retaining people.

The Company's brands are sold in various locations around the world. Multi-purpose maintenance products are sold worldwide in markets throughout North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Homecare and cleaning products are sold primarily in North America, the U.K., Australia and the Pacific Rim.

Financial Information about Operating Segments

The Company's operating segments are determined consistent with the way management organizes and evaluates financial information internally for making operating decisions and assessing performance. The Company is organized on the basis of geographical area into the following segments: the Americas, Europe and Asia-Pacific.

The Company's management reviews product performance on the basis of sales, which comes from its two product lines multi-purpose maintenance products and homecare and cleaning products. The Company sells its products primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets and industrial distributors and suppliers. The financial information required by this item is included in Note 16 Business Segments and Foreign Operations of the Company's consolidated financial statements, included in Item 15 of this report, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this report.

Products

Multi-Purpose Maintenance Products

The WD-40 brand is a market leader among multi-purpose maintenance products and is sold as an aerosol spray, a non-aerosol trigger spray and in liquid form through mass retail stores, hardware stores, warehouse club stores, automotive parts outlets and industrial distributors and suppliers. WD-40 products are sold worldwide in markets such as North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. WD-40 products have a wide variety of consumer uses in, for example, household, marine, automotive, construction, repair, sporting goods and gardening applications, in addition to numerous industrial applications.

The 3-IN-ONE brand consists of multi-purpose drip oil and spray lubricant products, as well as other specialty maintenance products. The drip oil is an entry-level lubricant with unique spout options that allow precise applications for small mechanisms and assemblies, tool maintenance and threads on screws and bolts. 3-IN-ONE

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Oil is the market share leader among drip oils for household consumers. It also has wide industrial applications in such areas as locksmithing, HVAC, marine, farming, construction and jewelry manufacturing. In addition to the drip oil line of products, the 3-IN-ONE brand also includes a professional line of products known as 3-IN-ONE Professional, which is a line of high quality, great value multi-purpose maintenance products. The high quality of the 3-IN-ONE brand and its established distribution network have enabled these products to gain international acceptance. 3-IN-ONE products are sold primarily in the U.S., Europe, Canada, Latin America, Australia and Asia.

The Blue Works brand consists of a line of industrial grade, specialty maintenance products that include lubricants, penetrants, degreasers and cleaners designed specifically for the needs of industrial users. Blue Works products were launched in the U.S. during the second quarter of fiscal year 2010 and in selected markets in Europe in early fiscal year 2011 and are currently sold through the industrial channel. This industrial channel represents a smaller market and experiences slower growth with different sales cycles than do other distribution channels where the Company currently sells its products. Since there is end user overlap between users of Blue Works products and users of the WD-40 Specialist products, it is possible that over time end users will choose WD-40 Specialist over Blue Works.

WD-40 Specialist consists of a line of best-in-class performing specialty problem solving products that include penetrants, water resistant silicone sprays, corrosion inhibitors and rust removers that are aimed at an expanded group of end users that currently uses WD-40 multi-use product. The Company launched the first three products in this line in the U.S. during September 2011 and certain products in the line in Canada and select markets in Europe in January 2012 using the same established distribution channels where the Company currently sells its existing products.

WD-40 Bike Company LLC is a new business unit that the Company has recently formed as part of its focus on global innovation. The WD-40 Bike product line consists of a comprehensive line of bicycle maintenance products that include wet and dry chain lubricants, heavy-duty degreasers, foaming bike wash and frame protectants that are designed specifically for the avid cyclist, bike enthusiasts and mechanics. The Company will start to launch certain products in this line during the first quarter of fiscal year 2013 through a network of bike shops and sport retailers across the United States.

Homecare and Cleaning Products

The X-14 brand is a line of quality products designed for unique cleaning needs. X-14 is sold as a liquid mildew stain remover and two types of automatic toilet bowl cleaners. X-14 is sold primarily in the U.S. through grocery and mass retail channels.

The 2000 Flushes brand is a line of long-lasting automatic toilet bowl cleaners which includes a variety of formulas. 2000 Flushes is sold primarily in the U.S. and Canada through grocery and mass retail channels.

The Carpet Fresh brand is a line of room and rug deodorizers sold as powder, aerosol foam and trigger spray products. Carpet Fresh is sold primarily through grocery and mass retail channels in the U.S., U.K. and Australia. In the U.K., Carpet Fresh is sold under the 1001 brand name. In Australia, Carpet Fresh is sold under the No Vac brand name.

The Spot Shot brand is sold as an aerosol carpet stain remover and a liquid trigger carpet stain and odor eliminator. The brand also includes environmentally friendly products such as Spot Shot Instant Carpet Stain & Odor Eliminator and Spot Shot Pet Clean, which are non-toxic and biodegradable. Spot Shot products are sold primarily through grocery and mass retail channels, warehouse club stores and hardware and home center stores in the U.S. and Canada. Spot Shot products are also sold in the U.K. under the 1001 brand name.

The 1001 brand includes carpet and household cleaners and rug and room deodorizers which are sold primarily through mass retail, grocery and home center stores in the U.K. The brand was acquired to introduce the Company's other homecare and cleaning product formulations under the 1001 brand in order to expand the Company's homecare and cleaning products business into the U.K. market.

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The Lava and Solvol brands consist of heavy-duty hand cleaner products which are sold in bar soap and liquid form through hardware, grocery, industrial, automotive and mass retail channels. Lava is sold primarily in the U.S., while Solvol is sold exclusively in Australia.

Financial information about operating segments and product lines is included in Note 16 Business Segments and Foreign Operations of the consolidated financial statements, included in Item 15 of this report.

Sales and Marketing

The Company's sales do not reflect any significant degree of seasonality. However, it is common for the Company's sales to fluctuate from period to period or year to year due to various factors, including but not limited to new or lost distribution, the number of product offerings carried by a customer and the level of promotional activities and programs being run at customer locations. New or lost distribution occurs when the Company gains or loses customers, it gains or loses store count for a customer or its products are added to new locations within a store or removed from existing locations. From time to time, as part of new product offering launches, the Company may gain access to entirely new distribution channels. The number of product offerings refers to the number of brands and/or the number of products within each of those brands that the Company's customers offer for sale to end user customers. The level of promotional activities and programs relates to the number of events or volumes of purchases by customers in support of off-shelf or promotional display activities. Changes in any one of these three factors or a combination of them can cause the Company's sales levels to increase or decrease from period to period. It is also common and/or possible that the Company could lose distribution or product offerings and experience a decrease in promotional activities and programs in one period and subsequently regain this business in a future period. The Company is accustomed to such fluctuations and manages this as part of its normal business activities.

Sources and Availability of Components and Raw Materials

The Company relies on a limited number of suppliers, including single or sole suppliers, for certain of its raw materials, packaging, product components and other necessary supplies. The Company's primary components and raw materials include aerosol cans and petroleum-based products, which are manufactured from commodities that are subject to volatile price changes. The availability of these components and raw materials is affected by a variety of supply and demand factors, including global market trends, plant capacity decisions and natural disasters. The Company expects these components and raw materials to continue to be readily available in the future, although the Company will continue to be exposed to volatile price changes.

Research and Development

The Company recognizes the importance of innovation and renovation to its long-term success and is focused on and committed to research and new product development activities. The Company's product development team, Team Tomorrow, engages in consumer research, product development, current product improvement and testing activities, and also leverages its development capabilities by partnering with a network of outside resources including the Company's current and prospective outsource suppliers. In addition, Team Tomorrow engages in activities and product development efforts which are necessary to ensure that the Company meets all regulatory requirements for the formulation of its products. The Company incurred research and development expenses of \$5.1 million, \$5.5 million and \$5.3 million in fiscal years 2012, 2011 and 2010, respectively. None of this research and development activity was customer-sponsored.

Manufacturing

The Company outsources directly or through its marketing distributors the manufacturing of its finished products to various third-party contract manufacturers. The Company or its marketing distributors use contract manufacturers in the United States, Canada, Mexico, Brazil, Argentina, Columbia, the U.K., Australia, Japan, China, South Korea and India. Although the Company does not typically have definitive minimum purchase

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obligations included in the contract terms with its contract manufacturers, when such obligations have been included, they have been immaterial to date. Supply needs are communicated by the Company to its contract manufacturers, and the Company is committed to purchase the products manufactured based on orders and short-term projections, ranging from two to five months, provided to the contract manufacturers. The Company also formulates and manufactures concentrate used in its WD-40 products at its own facilities and at third-party contract manufacturers.

In addition to the commitments to purchase products from contract manufacturers described above, the Company may also enter into commitments with other manufacturers from time to time to purchase finished goods and components to support innovation initiatives and/or supply chain initiatives.

Order Backlog

Order backlog is not a significant factor in the Company's business.

Competition

The markets for the Company's products, particularly those related to its homecare and cleaning products, are highly competitive. The Company's products compete both within their own product classes as well as within product distribution channels, competing with many other products for store placement and shelf space. Competition in international markets varies by country. The Company is aware of many competing products, some of which sell for lower prices or are produced and marketed by companies with greater financial resources than those of the Company. The Company relies on the awareness of its brands among consumers, the value offered by those brands as perceived by consumers, product innovation and renovation and its multiple channel distributions as its primary strategies. New products typically encounter intense competition, which may require advertising and promotional support and activities. When or if a new product achieves consumer acceptance, ongoing advertising and promotional support may be required to maintain its relative market position.

Trademarks and Patents

The Company owns numerous patents, but relies primarily upon its established trademarks, brand names and marketing efforts, including advertising and sales promotion, to compete effectively. The WD-40, 3-IN-ONE, Blue Works, WD-40 Specialist, Lava, Solvol, X-14, 2000 Flushes, Carpet Fresh and No Vac, Spot Shot and 1001 trademarks are registered or have pending registration in various countries throughout the world.

Employees

At August 31, 2012, the Company employed 347 people worldwide: 152 by the United States parent corporation (including 5 of whom are based in the Malaysia regional office); 10 by the Canada subsidiary; 127 by the U.K. subsidiary (including 57 in the U.K., 23 in Germany, 22 in France, 16 in Spain and 9 in Italy); 16 by the Australia subsidiary; 40 by the China subsidiary; and 2 by WD-40 Manufacturing Company, the Company's manufacturing subsidiary.

Financial Information about Foreign and Domestic Operations

For detailed information about the Company's foreign and domestic operations, including net sales and total assets by reportable segment and long-lived assets by geography, refer to Note 16 – Business Segments and Foreign Operations of the consolidated financial statements, included in Item 15 of this report.

Access to SEC Filings

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available through the Investors section of the Company's website at

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www.wd40company.com. These reports can be accessed free of charge from the Company's website as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the Securities and Exchange Commission (SEC). Information contained on the Company's website is not included as a part of, or incorporated by reference into, this report.

Interested readers may also read and copy any materials that the Company files at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Readers may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site (www.sec.gov) that contains the Company's reports.

Item 1A. Risk Factors

The following risks and uncertainties, as well as other factors described elsewhere in this report or in other SEC filings by the Company, could adversely affect the Company's business, financial condition and results of operations.

The Company's financial results could suffer if the Company is unable to implement and successfully manage its core strategic initiatives or if the Company's core strategic initiatives do not achieve the intended results.

There is no assurance that the Company will be able to implement and successfully manage its core strategic initiatives, including its five major strategic initiatives, or that the core strategic initiatives will achieve the intended results, which include sales volume growth. The Company's five major strategic initiatives include: (i) maximizing the WD-40 brand through geographic expansion and market penetration; (ii) becoming the global leader in the Company's product categories within its prioritized platforms; (iii) developing strategic business relationships; (iv) pursuing global innovation efforts; and (v) attracting, developing and retaining people. If the Company is unable to implement and successfully manage its core strategic initiatives in accordance with its business plans, the Company's business and financial results could be adversely affected. Moreover, the Company cannot be certain that implementation of its core strategic initiatives will necessarily advance its business or financial results as intended.

Cost increases in finished goods, components, raw materials, transportation and other necessary supplies or services could harm the Company's financial condition and results of operations.

Increases in the cost of finished goods, components and raw materials and increases in the cost of transportation and other necessary supplies or services may harm the Company's financial condition and results of operations. Petroleum-based products and aerosol cans, which constitute a significant portion of the costs for many of the Company's products, have experienced significant price volatility in the past, and may continue to do so in the future. Fluctuations in oil and diesel fuel prices have also impacted the Company's cost of transporting its products. As component and raw material costs are the principal contributors to the cost of goods sold for all of the Company's products, any significant fluctuation in the costs of components and raw materials could have a material impact on the gross margins realized on the Company's products. Specifically, the costs of petroleum-based materials, which are included in many of the Company's products, are exposed to fluctuations resulting from the increase in the cost of petroleum and there has been significant volatility in such costs in recent years. In the event there is significant volatility in the Company's cost of goods or increases in raw material and/or component costs or the costs of transportation and other necessary supplies or services, the Company may not be able to maintain its gross margins if it chooses not to raise its product sales prices. Should the Company choose to increase product sales prices to offset cost increases, such increases may adversely affect demand and unit sales. Sustained increases in the cost of raw materials, components, transportation and other necessary supplies or services, or significant volatility in such costs, could have a material adverse effect on the Company's financial condition and results of operations.

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Reliance on a limited base of third-party contract manufacturers, logistics providers and suppliers of raw materials and components may result in disruption to the Company's business and this could adversely affect the Company's financial condition and results of operations.

The Company relies on a limited number of third-party contract manufacturers, logistics providers and suppliers, including single or sole source suppliers for certain of its raw materials, packaging, product components and other necessary supplies. The Company does not have direct control over the management or business of these third parties, except indirectly through terms negotiated in service or supply contracts. Should the terms of doing business with the Company's primary third-party contract manufacturers, suppliers and/or logistics providers change or should the Company have a disagreement with or be unable to maintain relationships with such third parties or should such third parties experience financial difficulties, the Company's business may be disrupted. In early fiscal year 2012, the Company started a project to redesign its supply chain architecture in North America. This project includes the consolidation of the Company's third-party contract manufacturers and a restructuring of the Company's distribution center network. Once fully integrated, the Company expects this redesign to result in overall cost savings within the supply chain network and improved service to its customers. Although this project has progressed well to date, the Company has incurred certain transition costs, primarily related to freight and warehousing costs, and it is still in the process of completing the implementation and transition to this new supply chain architecture. If the Company experiences difficulties with the final stages of implementing this project or if it has difficulties in managing such changes in future periods, the Company's business may be adversely affected. Disruptions in the Company's supply chain and related contract relationships could have an adverse effect on the Company's business, financial condition and results of operations. In addition, if the Company is unable to contract with third-party manufacturers or suppliers for the quantity and quality levels needed for its business, the Company could experience disruptions in production and its financial results could be adversely affected.

Global economic conditions may negatively impact the Company's financial condition and results of operations.

A general weakening or decline in the global economy or a reduction in business or consumer spending or confidence could delay or significantly decrease purchases of the Company's products by its customers, including mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets and industrial distributors and suppliers. Consumer purchases of discretionary items, which could include the Company's multi-purpose maintenance products and homecare and cleaning products, may decline during periods where disposable income is reduced or there is economic uncertainty, and this may negatively impact the Company's financial condition and results of operations. In addition, during unfavorable or uncertain economic times, consumers may increase purchases of lower-priced or non-branded products and the Company's competitors may increase their level of promotional activities to maintain sales volumes, both of which may negatively impact the Company's financial condition and results of operations.

The Company's sales and operating results may be affected by uncertain or changing economic and market conditions, including inflation, deflation, prolonged weak consumer demand or other changes which may affect the principal markets in which the Company conducts its business. If economic or market conditions in the United States or other key global markets deteriorate, the Company may experience material adverse effects on its business, financial condition and results of operations. The global economy experienced a recession beginning in calendar year 2008 and the pace of recovery from that recession has been slow. In recent years, the banking system and financial markets have experienced disruptions, including among other things, bank failures and consolidations, diminished liquidity and credit availability and rating downgrades. In addition, the current political and economic environment has resulted in continued economic unpredictability, particularly in Europe where there are concerns regarding the increased sovereign debt levels in several countries and the inability of some of those countries to meet future financial obligations, and the associated overall volatility of the Euro currency. Although these factors are outside of the Company's control, they directly affect its business. The slow pace of economic recovery or any new economic downturn or recession could cause the Company's customers to delay or significantly decrease their purchases, which could reduce the Company's future sales and negatively impact its results of operations and cash flows.

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Adverse economic and market conditions could also harm the Company's business by negatively affecting the parties with whom it does business, including its customers, retailers, distributors and wholesalers, and third-party contract manufacturers and suppliers. These conditions could impair the ability of the Company's customers to pay for products they have purchased from the Company. As a result, allowances for doubtful accounts and write-offs of accounts receivable from the Company's customers may increase. In addition, the Company's third-party contract manufacturers and its suppliers may experience financial difficulties that could negatively affect their operations and their ability to supply the Company with finished goods and the raw materials, packaging, and components required for the Company's products.

The Company faces significant competition in its markets which could lead to reduced profitability.

The Company faces significant competition from other consumer products companies, both in the U.S. and in other global markets. Many of the Company's products, particularly its homecare and cleaning products, compete with other widely advertised brands within each product category and with private label brands and generic non-branded products of the Company's customers in certain categories, which are typically sold at lower prices. The Company also encounters competition from similar and alternative products, many of which are produced and marketed by major national or multinational companies. In addition, from time to time the Company discovers products in the marketplace that are counterfeit reproductions of its products. The availability of counterfeits of the Company's products, particularly in China, could adversely impact the Company's sales and potentially damage the value and reputation of its brands.

The Company's products generally compete on the basis of product performance, brand recognition, price, quality or other benefits to consumers. Advertising, promotions, merchandising and packaging also have a significant impact on consumer purchasing decisions. A newly introduced consumer product, whether improved or recently developed, usually encounters intense competition requiring substantial expenditures for advertising, sales promotion and trade merchandising. If a product gains consumer acceptance, it normally requires continued advertising, promotional support and product improvements in order to maintain its relative market position.

Some of the Company's competitors are larger and have financial resources greater than those of the Company. These competitors may be able to spend more aggressively on advertising and promotional activities, introduce competing products more quickly and respond more effectively to changing business and economic conditions than the Company. In addition, the Company's competitors may attempt to gain market share by offering products at sales prices at or below those typically offered by the Company.

Competitive activity may require the Company to increase its investment in marketing or reduce its sales prices and this may lead to reduced profit margins or a loss of market share, either of which could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to compete successfully against current and future competitors or that competitive pressures faced by the Company will not have a material adverse effect on its business, financial condition and results of operations.

Global operations outside the U.S. expose the Company to uncertain conditions, foreign currency exchange rate risk and other risks in international markets.

The Company's sales outside of the U.S. were approximately 58% of consolidated net sales in fiscal year 2012 and one of its core strategic initiatives includes becoming a global leader in its product categories. As a result, the Company currently faces, and will continue to face, substantial risks associated with having increased global operations outside the U.S., including:

economic or political instability in the Company's international markets, including Latin America, the Middle East, parts of Asia, Russia, Eastern Europe and the Eurozone countries;

restrictions on or costs relating to the repatriation of foreign profits to the U.S., including possible taxes or withholding obligations on any repatriations;

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challenges associated with the conduct of business in foreign jurisdictions;

dispersed employee base and compliance with employment regulations and other labor issues, including unionization and minimum wages, in countries outside the U.S.; and

the imposition of tariffs or trade restrictions and costs, burdens and restrictions associated with other governmental actions.

These risks could have a significant impact on the Company's ability to sell its products on a competitive basis in global markets outside the U.S. and could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is also exposed to foreign currency exchange rate risk with respect to its sales, expenses, profits, assets and liabilities denominated in currencies other than the U.S. dollar. Although the Company uses instruments to hedge certain foreign currency risks, primarily those associated with its U.K. subsidiary, it is not fully protected against foreign currency fluctuations and, therefore, the Company's reported earnings may be affected by changes in foreign currency exchange rates. Moreover, any favorable impacts to profit margins or financial results from fluctuations in foreign currency exchange rates are likely to be unsustainable over time. Also, the current and ongoing European financial restructuring efforts may cause the value of the European currencies, particularly the Euro, to further deteriorate, thus reducing the purchasing power of certain European customers, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Additionally, the Company's global operations outside the U.S. are subject to risks relating to appropriate compliance with legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations, potentially higher incidence of fraud or corruption, credit risk of local customers and distributors and potentially adverse tax consequences. Also, as the Company further develops and grows its business operations outside the U.S., the Company may be exposed to additional complexities and risks, particularly in emerging markets such as China. In many foreign countries, particularly in those with developing economies, it may be a local custom for a company which operates in such countries to engage in business practices that are prohibited by the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act or other applicable laws and regulations. Although the Company has adopted policies and contract terms to mandate compliance with these laws, there can be no assurance that all of its employees, contractors and agents will comply with the Company's requirements. Violations of these laws could be costly and disrupt the Company's business, which could have a material adverse effect on its business, financial condition and results of operations.

Sales volume growth may be difficult to achieve.

The Company's ability to achieve sales volume growth will depend on its ability to (i) execute its core strategic initiatives, which include maximizing the WD-40 brand through geographic expansion and market penetration, becoming the global leader in the Company's product categories within its prioritized platforms, developing strategic business relationships, pursuing global innovation efforts and attracting, developing and retaining people, (ii) drive growth within its existing markets through innovation, renovation and enhanced merchandising and marketing of its established brands, (iii) introduce its products to new users and (iv) capture market share from its competitors. It is more difficult for the Company to achieve sales volume growth in mature markets where the Company's products are widely used as compared to in developing markets where the Company's products have been newly introduced or are not well known by consumers. In order to protect the Company's existing market share or capture additional market share from its competitors, the Company may need to increase its expenditures related to promotions and advertising or introduce and establish new products. In past periods, the Company has also increased sales prices on certain of its products in response to increased costs for components and raw materials. Sales price increases may slow sales volume growth or create declines in volume in the short term as customers adjust to sales price increases. In addition, a change in the strategies of the

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Company's existing customers, including shelf simplification, the discontinuation of certain product offerings or the shift in shelf space to competitors' products could reduce the Company's sales and potentially offset sales volume increases achieved as a result of other sales growth initiatives. If the Company is unable to increase market share in its existing product lines by developing product improvements, investing adequately in its existing brands, building usage among new customers, developing, acquiring or successfully launching new products or product line extensions, or successfully penetrating new and developing markets globally, the Company may not achieve its sales volume growth objectives.

Government regulations and environmental laws and regulations could result in material costs or otherwise adversely affect the Company's financial condition and results of operations.

The manufacturing, chemical composition, packaging, storage, distribution and labeling of the Company's products and the manner in which the Company's business operations are conducted must comply with extensive federal, state and foreign laws and regulations, such as the California Air Resources Board (CARB) regulations and the California Transparency in Supply Chains Act as well as many others in the United States. In addition, the Company's international operations are subject to regulations in each of the foreign jurisdictions in which it manufactures, distributes and sells its products. If the Company is not successful in complying with the requirements of all such regulations or changes to existing regulations, it could be fined or other actions could be taken against the Company by the governing body and this could adversely affect the Company's financial condition and results of operations. It is also possible that governments will increase regulation of the transportation, storage or use of certain chemicals, to enhance homeland security or protect the environment and such regulation could negatively impact the Company's ability to obtain raw materials, components and/or finished goods or could result in increased costs. In the event that such regulations result in increased product costs, the Company may not be in a position to raise selling prices, and therefore an increase in costs could have a material adverse effect on the Company's business, financial condition and results of operations.

Some of the Company's products have chemical compositions that are controlled by various state, federal and international laws and regulations. The Company is required to comply with these laws and regulations and it seeks to anticipate regulatory developments that could impact the Company's ability to continue to produce and market its products. The Company invests in research and development to maintain product formulations that comply with such laws and regulations. There can be no assurance that the Company will not be required to alter the chemical composition of one or more of the Company's products in a way that will have an adverse effect upon the product's efficacy or marketability. A delay or other inability of the Company to complete product research and development and successfully reformulate its products in response to any such regulatory requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is also subject to numerous environmental laws and regulations that impose various environmental controls on its business operations, including, among other things, the discharge of pollutants into the air and water, the handling, use, treatment, storage and clean-up of solid and hazardous wastes and the investigation and remediation of soil and groundwater affected by hazardous substances. Such laws and regulations may otherwise relate to various health and safety matters that impose burdens upon the Company's operations. These laws and regulations govern actions that may have adverse environmental effects and also require compliance with certain practices when handling and disposing of hazardous wastes. These laws and regulations also impose strict, retroactive and joint and several liability for the costs of, and damages resulting from, cleaning up current sites, past spills, disposals and other releases of hazardous substances. The Company believes that its expenditures related to environmental matters have not had, and are not currently expected to have, a material adverse effect on its financial condition, results of operations or cash flows. However, the environmental laws under which the Company operates are complicated, often become increasingly more stringent and may be applied retroactively. Accordingly, there can be no assurance that the Company will not be required to incur additional expenditures to remain in or to achieve compliance with environmental laws in the future or that any such additional expenditures will not have a material adverse effect on the Company's business, financial condition or results of operations.

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Dependence on key customers could adversely affect the Company's business, financial condition and results of operations.

The Company sells its products through a network of domestic and international mass retail and consumer retailers as well as industrial distributors and suppliers. The retail industry has historically been the subject of consolidation due to economic events, and as a result, the development of large chain stores has taken place. Today, the retail channel in the U.S. is comprised of several of these large chain stores that capture the bulk of the market share. Since many of the Company's customers have been part of the consolidation in the retail industry, these limited customers account for a large percentage of the Company's net sales. The Company expects that a significant portion of its revenues will continue to be derived from this limited number of customers. As a result, changes in the strategies of the Company's largest customers, including shelf simplification, a reduction in the number of brands they carry or a shift in shelf space to private label or competitors' products, may harm the Company's sales. The loss of, or reduction in, orders from any of the Company's most significant customers could have a material adverse effect on the Company's brand values, business, financial condition and results of operations. Large customers may seek price reductions, added support or promotional concessions. If the Company agrees to such customer demands and/or requests, it could negatively impact the Company's ability to maintain existing profit margins.

In addition, the Company's business is based primarily upon individual sales orders, and the Company typically does not enter into long-term contracts with its customers. Accordingly, these customers could reduce their purchasing levels or cease buying products from the Company at any time and for any reason. The Company is also subject to changes in customer purchasing patterns or the level of promotional activities. These types of changes may result from changes in the manner in which customers purchase and manage inventory levels, or display and promote products within their stores. Other potential factors such as customer disputes regarding shipments, fees, merchandise condition or related matters may also impact operating results. If the Company ceases doing business with a significant customer or if sales of its products to a significant customer materially decrease, the Company's business, financial condition and results of operations may be harmed.

If the success and reputation of one or more of the Company's leading brands erodes, its business, financial condition and results of operations could be negatively impacted.

The financial success of the Company is directly dependent on the success and reputation of its brands, particularly its WD-40 brand. The success and reputation of the Company's brands can suffer if marketing plans or product development and improvement initiatives do not have the desired impact on the brands' image or do not attract customers as intended. The Company's brands can also be adversely impacted due to the activities and pressures placed on them by the Company's competitors. Further, the Company's business, financial condition and results of operations could be negatively impacted if one of its leading brands suffers damage to its reputation due to real or perceived quality or safety issues. Quality issues, which can lead to large scale recalls of the Company's products, can be due to items such as product contamination, packaging errors and incorrect ingredients in the Company's product. Although the Company makes every effort to prevent brand erosion and preserve its reputation and the reputation of its brands, there can be no assurance that such efforts will be successful.

The Company may not successfully develop, introduce and/or establish new products and line extensions.

The Company's future performance and growth depend, in part, on its ability to successfully develop, introduce and/or establish new products as both brand extensions and/or line extensions. The Company cannot be certain that it will successfully achieve those goals. The Company competes in several product categories where there are frequent introductions of new products and line extensions and such product introductions often require significant investment and support. The ability of the Company to understand consumer preferences is key to maintaining and improving the competitiveness of its product offerings. The development and introduction of new products, as well as the renovation of current products and product lines, require substantial and effective

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research, development and marketing expenditures, which the Company may be unable to recoup if the new or renovated products do not gain widespread market acceptance. There are inherent risks associated with new product development and marketing efforts, including product development or launch delays, product performance issues during development, changing regulatory frameworks that affect the new products in development and the availability of key raw materials included in such products. These inherent risks could result in the failure of new products and product line extensions to achieve anticipated levels of market acceptance, additional costs resulting from failed product introductions and the Company not being first to market. As the Company continues to focus on innovation and renovation, the Company's business, financial condition or results of operations could be adversely affected in the event that the Company is not able to effectively develop and introduce new or renovated products and line or brand extensions.

The Company's business development activities may not be successful.

The Company seeks to increase growth through business development activities such as acquisitions, joint ventures, licensing and/or other strategic partnerships in the United States and internationally. However, if the Company is not able to identify, acquire and successfully integrate acquired products or companies or successfully manage joint ventures or other strategic partnerships, the Company may not be able to maximize these opportunities. The failure to properly manage business development activities because of difficulties in the assimilation of operations and products, the diversion of management's attention from other business concerns, the loss of key employees or other factors could materially adversely affect the Company's business, financial condition and results of operations. In addition, there can be no assurance that the Company's business development activities will be profitable at their inception or that they will achieve sales levels and profitability that justify the investments made.

Future acquisitions, joint ventures or strategic partnerships could also result in the incurrence of debt, potentially dilutive issuances of equity securities, contingent liabilities, amortization expenses related to certain intangible assets and/or increased operating expenses, all of which could adversely affect the Company's results of operations and financial condition. In addition, to the extent that the economic benefits associated with any of the Company's business development activities diminish in the future, the Company may be required to record impairments to goodwill, intangible assets or other assets associated with such activities, which could also adversely affect the Company's business, financial condition and results of operations.

Goodwill and intangible assets are subject to impairment risk.

In accordance with the authoritative guidance on goodwill, intangibles and other, the Company assesses the potential impairment of its existing goodwill during the second fiscal quarter of each fiscal year and otherwise when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. The Company also assesses its definite-lived intangible assets for potential impairment when events and circumstances indicate that the carrying amount of the asset may not be recoverable and/or its remaining useful life may no longer be appropriate. Indicators such as underperformance relative to historical or projected future operating results, changes in the Company's strategy for its overall business or use of acquired assets, unexpected negative industry or economic trends, decline in the Company's stock price for a sustained period, decreased market capitalization relative to net book values, unanticipated technological change or competitive activities, loss of key distribution, change in consumer demand, loss of key personnel and acts by governments and courts may signal that an asset has become impaired.

The Company may be required to record a significant charge in its consolidated financial statements during the period in which any impairment of its goodwill or intangible assets is identified and this would negatively impact the Company's financial condition and results of operations. Although the Company has recorded significant impairments to certain of its indefinite-lived intangible assets in prior fiscal years, no such impairments have been identified or recorded in recent fiscal years associated with its goodwill or definite-lived intangible assets. As of August 31, 2012, the Company only held goodwill and definite-lived intangible assets as its remaining indefinite-lived intangible assets, which include the Spot Shot, 2000 Flushes and 1001 trade names, were reclassified to definite-lived intangible assets effective February 28, 2011.

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The Company's operating results and financial performance may not meet expectations which could adversely affect the Company's stock price.

The Company cannot be sure that its operating results and financial performance, which include sales growth, net income, earnings per common share, gross margin and cash flows, will meet expectations. If the Company's assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of its key goals or core strategic initiatives, then the Company's actual performance could vary materially from its internal expectations and those of the market. Failure to meet or exceed these expectations could cause the market price of the Company's stock to decline. The Company's operating results and financial performance may be negatively influenced by a number of factors, many of which are discussed in this Item 1A Risk Factors. In addition, the Company's stock price could significantly fluctuate as a result of the following factors:

Significant variations in the Company's operating results;

Operating results that vary from the expectations of management, securities analysts or investors;

Changes in product sales prices by the Company or its competitors and consumer and customer reactions to such sales price changes;

The mix of products sold within different channels and countries with varying profitability in a given period;

The Company's ability to control internal costs and to generate expected cost savings and efficiencies;

The effectiveness of the Company's advertising, marketing and promotional programs;

The failure of parties contracting with the Company to perform their obligations and the loss of or inability to renew contracts of importance to the Company's performance;

The Company's reliance on brokers for the grocery and industrial channels;

The ability of the Company to attract and retain qualified personnel;

The ability of the Company to penetrate and grow domestic and international markets and distribution channels; and

The ability of the Company to manage inventory at appropriate levels, including decisions regarding obsolescence. In addition, sales volume growth, whether due to acquisitions or internal growth, can place burdens on management resources and financial controls that, in turn, can have a negative impact on operating results and financial condition of the Company. To some extent, the Company plans its expense levels in anticipation of future revenues. If actual revenues fall short of these expectations, operating results and the financial condition of the Company are likely to be adversely affected.

Resolution of income tax matters may impact the Company's financial condition and results of operations.

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Significant judgment is required in determining the Company's effective income tax rate and in evaluating tax positions, particularly those related to uncertain tax positions. The Company provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the accounting standard for uncertain tax positions. Changes in uncertain tax positions or other adjustments resulting from tax audits and settlements with taxing authorities, including related interest and penalties, impact the

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Company's effective tax rate. When particular tax matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable resolution of any tax matter could increase the Company's effective tax rate. Any resolution of a tax matter may require the adjustment of tax assets or tax liabilities or the use of cash in the year of resolution. For additional information, refer to the information set forth in Note 13 Income Taxes of the consolidated financial statements, included in Item 15 of this report.

Product liability claims and other litigation and/or regulatory action could adversely affect the Company's sales and operating results.

While the Company makes every effort to ensure that the products it develops and markets are safe for consumers, the use of the Company's products may expose the Company to liability claims resulting from such use. Claims could be based on allegations that, among other things, the Company's products contain contaminants, provide inadequate instructions regarding their use or inadequate warnings concerning their use or interactions with other substances. Product liability claims could result in negative publicity that could harm the Company's sales and operating results. The Company maintains product liability insurance that it believes will be adequate to protect the Company from material loss attributable to such claims but the extent of such loss could exceed available limits of insurance or could arise out of circumstances under which such insurance coverage would be unavailable. Other business activities of the Company may also expose the Company to litigation risks, including risks that may not be covered by insurance such as contract disputes. If successful claims are asserted by third parties against the Company for uninsured liabilities or liabilities in excess of applicable limits of insurance coverage, the Company's business, financial condition and results of operations may be adversely affected. In addition, if one of the Company's products were determined to be defective, the Company could be required to recall the product, which could result in adverse publicity and significant expenses.

Additionally, the Company's products may be associated with competitor products or other products in the same category, which may be alleged to have caused harm to consumers. As a result of this association, the Company may be named in unwarranted legal actions. The potential costs to defend such claims may materially affect the Company's business, financial condition and results of operations.

Failure to maximize or to successfully assert the Company's intellectual property rights or infringement by the Company on the intellectual property rights of others could impact its competitiveness or otherwise adversely affect the Company's financial condition and results of operations.

The Company relies on trademark, trade secret, patent and copyright laws to protect its intellectual property rights. The Company cannot be sure that these intellectual property rights will be maximized or that they can be successfully asserted. There is a risk that the Company will not be able to obtain and perfect its own intellectual property rights or, where appropriate, license intellectual property rights necessary to support new product introductions. The Company cannot be certain that these rights, if obtained, will not be invalidated, circumvented or challenged in the future, and the Company could incur significant costs in connection with legal actions to defend its intellectual property rights. In addition, even if such rights are obtained in the United States, it may be that the laws of some of the other countries in which the Company's products are or may be sold do not protect intellectual property rights to the same extent as the laws of the United States, or they may be difficult to enforce. If other companies infringe the Company's intellectual property rights or take part in counterfeiting activities, they may dilute the value of the Company's brands in the marketplace, which could diminish the value that consumers associate with the Company's brands and harm its sales. The failure of the Company to protect or successfully assert its intellectual property rights or to protect its other proprietary information could make the Company less competitive and could have a material adverse effect on its business, financial condition and results of operations.

If the Company is found to have violated the trademark, trade secret, copyright, patent or other intellectual property rights of others, such a finding could result in the need to cease the use of a trademark, trade secret, copyrighted work or patented invention in the Company's business and an obligation to pay a substantial amount

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for past infringement. It could also be necessary to pay a substantial amount in the future if the holders of such rights are willing to permit the Company to continue to use the intellectual property rights. Either having to cease use or pay such amounts could make the Company less competitive and could have a material adverse impact on its business, financial condition and results of operations.

Changes in marketing distributor relationships that are not managed successfully by the Company could result in a disruption in the affected markets.

The Company distributes its products throughout the world in one of two ways: the Direct Distribution model, in which products are sold directly by the Company to wholesalers and retailers in the U.S., Canada, Australia, China, the U.K. and a number of other countries throughout Europe; and the Marketing Distributor model, in which products are sold to marketing distributors who in turn sell to wholesalers and retailers. The Marketing Distributor model is generally used in certain countries where the Company does not have direct Company-owned operations. Instead, the Company partners with local companies who perform the sales, marketing and distribution functions. The Company invests time and resources in these relationships. Should the Company's relationship with a marketing distributor change or terminate, the Company's sales within such marketing distributor's territory could be adversely impacted until such time as a suitable replacement could be found and the Company's key marketing strategies implemented. There is a risk that changes in such marketing distributor relationships, including changes in key marketing distributor personnel, that are not managed successfully, could result in a disruption in the affected markets and that such disruption could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, in some countries, local laws may require substantial payments to terminate existing marketing distributor relationships, which could also have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may not have sufficient cash to service its indebtedness or to pay cash dividends.

Historically, the Company's acquisitions have been funded to a large extent by debt. In order to service the debt, the Company is required to use its income from operations to make interest and principal payments required by the terms of the loan agreements. In addition, the Company's loan agreements typically include covenants to maintain certain financial ratios and to comply with other financial terms, conditions and covenants. Also, the Company has historically paid out a large part of its earnings to stockholders in the form of regular quarterly cash dividends. In December 2011, the Board of Directors declared a 7% increase in the regular quarterly cash dividend, increasing it from \$0.27 per share to \$0.29 per share.

The Company may incur substantial debt in the future for acquisitions or other business development activities. In addition, the Company may continue to use available cash balances to execute share repurchases under approved share buy-back plans. To the extent that the Company is required to seek additional financing to support certain of these activities, such financing may not be available in sufficient amounts or on terms acceptable to the Company. If the Company is unable to obtain such financing or to service its existing or future debt with its operating income, or if available cash balances are affected by future business performance, liquidity, capital needs, alternative investment opportunities or debt covenants, the Company could be required to reduce, suspend or eliminate its dividend payments to its stockholders.

The Company may experience difficulties with or malfunctions of the critical information systems that it uses for the daily operations of its business and this could adversely affect the Company's business, financial condition and results of operations.

System failure, malfunction or loss of data which is housed in the Company's critical information systems could disrupt its ability to timely and accurately process transactions and produce key financial reports, including information on the Company's operating results, financial position and cash flows. The Company's information systems could be damaged or cease to function properly due to a number of reasons, including catastrophic events, power outages and security breaches. Although the Company has certain business continuity plans in

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place to address such service interruptions, there is no guarantee that these business continuity plans will provide alternative processes in a timely manner. As a result, the Company may experience interruptions in its ability to manage its daily operations and this could adversely affect the Company's business, f>

Net Unrealized Gain on Securities Not Other-Than-Temporarily Impaired
584.4

614.8

Net Gain on Cash Flow Hedges
398.0

408.7

Foreign Currency Translation Adjustment
(89.4
)

(117.6
)

Unrecognized Pension and Postretirement Benefit Costs
(437.6
)

(444.1
)

Retained Earnings
6,793.5

6,611.0

Treasury Stock - at cost: 73,492,245 and 65,975,613 shares
(1,705.3
)

(1,530.1
)

Total Stockholders' Equity
8,179.9

8,169.7

Total Liabilities and Stockholders' Equity
\$

59,571.8

\$
59,555.2

See notes to consolidated financial statements.

3

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars, except share data)	
		As Adjusted
Revenue		
Premium Income	\$1,921.9	\$1,869.5
Net Investment Income	619.5	618.7
Realized Investment Gain (Loss)		
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	—	(2.3)
Other Net Realized Investment Gain	12.4	17.5
Net Realized Investment Gain	12.4	15.2
Other Income	57.5	59.7
Total Revenue	2,611.3	2,563.1
Benefits and Expenses		
Benefits and Change in Reserves for Future Benefits	1,662.9	1,593.0
Commissions	232.3	224.3
Interest and Debt Expense	35.5	37.9
Deferral of Acquisition Costs	(117.4)	(112.2)
Amortization of Deferred Acquisition Costs	99.4	95.0
Compensation Expense	206.9	201.9
Other Expenses	181.7	195.8
Total Benefits and Expenses	2,301.3	2,235.7
Income Before Income Tax	310.0	327.4
Income Tax		
Current	37.3	65.3
Deferred	58.8	38.5
Total Income Tax	96.1	103.8
Net Income	\$213.9	\$223.6
Net Income Per Common Share		
Basic	\$0.74	\$0.72
Assuming Dilution	\$0.73	\$0.71

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars)	
		As Adjusted
Net Income	\$213.9	\$223.6
Other Comprehensive Income (Loss)		
Change in Net Unrealized Gain on Securities Before Reclassification Adjustment:		
Change in Net Unrealized Gain on Securities Not Other-Than-Temporarily Impaired (net of tax benefit of \$110.2; \$40.7)	(196.5)	(77.3)
Change in Net Unrealized Gain on Securities Other-Than-Temporarily Impaired (net of tax benefit of \$ - ; \$1.1)	—	(2.1)
Total Change in Net Unrealized Gain on Securities Before Reclassification Adjustment (net of tax benefit of \$110.2; \$41.8)	(196.5)	(79.4)
Reclassification Adjustment for Net Realized Investment Gain (net of tax expense of \$0.3; \$0.5)	(0.7)	(0.6)
Change in Net Gain on Cash Flow Hedges (net of tax benefit of \$5.9; \$5.4)	(10.7)	(9.9)
Change in Adjustment to Reserves for Future Policy and Contract Benefits, Net of Reinsurance and Other (net of tax expense of \$97.2; \$59.8)	166.8	113.2
Change in Foreign Currency Translation Adjustment	28.2	26.5
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$3.5; \$1.6)	6.5	5.1
Total Other Comprehensive Income (Loss)	(6.4)	54.9
Comprehensive Income	\$207.5	\$278.5

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars)	
		As Adjusted
Common Stock		
Balance at Beginning of Year	\$35.9	\$36.5
Common Stock Activity	—	0.1
Retirement of Repurchased Common Shares	—	(0.8)
Balance at End of Period	35.9	35.8
Additional Paid-in Capital		
Balance at Beginning of Year	2,591.1	2,615.4
Common Stock Activity	9.3	12.2
Retirement of Repurchased Common Shares	—	(55.2)
Balance at End of Period	2,600.4	2,572.4
Accumulated Other Comprehensive Income (Loss)		
Balance at Beginning of Year	461.8	351.4
Change During Period	(6.4)	54.9
Balance at End of Period	455.4	406.3
Retained Earnings		
Balance at Beginning of Year	6,611.0	6,591.8
Net Income	213.9	223.6
Dividends to Stockholders (per common share: \$0.1050; \$0.0925)	(31.4)	(29.9)
Retirement of Repurchased Common Shares	—	(144.0)
Balance at End of Period	6,793.5	6,641.5
Treasury Stock		
Balance at Beginning of Year	(1,530.1)	(1,110.2)
Purchases of Treasury Stock	(175.2)	(23.6)
Balance at End of Period	(1,705.3)	(1,133.8)
Total Stockholders' Equity at End of Period	\$8,179.9	\$8,522.2

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars)	
	As Adjusted	
Cash Flows from Operating Activities		
Net Income	\$213.9	\$223.6
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	1.6	33.8
Change in Deferred Acquisition Costs	(18.0)	(17.2)
Change in Insurance Reserves and Liabilities	167.3	112.6
Change in Income Taxes	116.7	82.0
Change in Other Accrued Liabilities	(68.0)	(32.1)
Non-cash Adjustments to Net Investment Income	(100.9)	(112.6)
Net Realized Investment Gain	(12.4)	(15.2)
Depreciation	20.5	19.3
Other, Net	8.6	6.8
Net Cash Provided by Operating Activities	329.3	301.0
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	127.6	243.7
Proceeds from Maturities of Fixed Maturity Securities	596.3	400.5
Proceeds from Sales and Maturities of Other Investments	33.5	35.5
Purchase of Fixed Maturity Securities	(845.7)	(898.6)
Purchase of Other Investments	(52.6)	(92.9)
Net Sales (Purchases) of Short-term Investments	(17.2)	524.4
Other, Net	(23.7)	(24.6)
Net Cash (Used) Provided by Investing Activities	(181.8)	188.0
Cash Flows from Financing Activities		
Net Short-term Debt Borrowings (Repayments)	59.9	(225.1)
Long-term Debt Repayments	(17.5)	(24.2)
Issuance of Common Stock	0.9	5.5
Repurchase of Common Stock	(175.2)	(215.7)
Dividends Paid to Stockholders	(31.4)	(29.9)
Other, Net	1.7	3.4
Net Cash Used by Financing Activities	(161.6)	(486.0)
Net Increase (Decrease) in Cash and Bank Deposits	(14.1)	3.0
Cash and Bank Deposits at Beginning of Year	116.6	53.6
Cash and Bank Deposits at End of Period	\$102.5	\$56.6

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

March 31, 2012

Note 1 - Basis of Presentation

The accompanying consolidated financial statements of Unum Group and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2011.

In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of full year performance.

In connection with our preparation of the consolidated financial statements, we evaluated events that occurred subsequent to March 31, 2012 for recognition or disclosure in our financial statements and notes to our financial statements.

Note 2 - Accounting Developments

Accounting Updates Adopted in 2012:

Accounting Standards Codification (ASC) 220 "Comprehensive Income"

In June 2011, the Financial Accounting Standards Board (FASB) issued an update related to the financial statement presentation of comprehensive income. This update requires that non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present net income and its components, followed consecutively by a second statement presenting total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. In December 2011, the FASB issued an update to indefinitely defer the effective date pertaining to the presentation of reclassification adjustments and reinstated the previous requirement to present reclassification adjustments either on the face of the statement or in financial statement footnotes. We adopted these updates effective January 1, 2012. The adoption of these updates modified our financial statement presentation but had no effect on our financial position or results of operations.

ASC 350 "Intangibles - Goodwill and Other"

In September 2011, the FASB issued an update which gives companies the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We adopted this update effective January 1, 2012. The adoption of this update had no effect on our financial position or results of operations.

ASC 820 "Fair Value Measurements and Disclosures"

In May 2011, the FASB issued an update to require additional disclosures regarding fair value measurements and to provide clarifying guidance on the application of existing fair value measurement requirements. Specifically, the update requires additional information on Level 1 and Level 2 transfers within the fair value hierarchy; the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed; and information about the sensitivity of a fair value measurement in Level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs. We adopted this update effective January 1, 2012. The adoption of this update expanded our disclosures but had no effect on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 2 - Accounting Developments - Continued

ASC 860 "Transfers and Servicing"

In April 2011, the FASB issued an update to revise the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. This update removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and the related requirement to demonstrate that the transferor possess adequate collateral to fund substantially all the cost of purchasing replacement financial assets. We adopted this update effective January 1, 2012. The adoption of this update had no effect on our financial position or results of operations.

ASC 944 "Financial Services - Insurance"

In October 2010, the FASB issued an update to address the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. The amendments in the update require that only incremental direct costs associated with the successful acquisition of a new or renewal insurance contract can be capitalized. All other costs are to be expensed as incurred. We adopted this update effective January 1, 2012 and applied the amendments retrospectively, adjusting all prior periods. The cumulative effect of the adoption as of January 1, 2011, was a decrease to stockholders' equity of \$459.5 million. The following table summarizes the effects on our financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 2 - Accounting Developments - Continued

	Historical Accounting Method (in millions of dollars, except share data)	As Adjusted	Effect of Change	
At or for the Three Months Ended March 31, 2011				
Consolidated Balance Sheets				
Deferred Acquisition Costs	\$2,542.9	\$1,834.6	\$(708.3)
Deferred Income Tax	471.2	224.5	(246.7)
Net Unrealized Gain on Securities Not Other-Than-Temporarily Impaired	443.6	449.3	5.7	
Foreign Currency Translation Adjustment	(84.1	) (80.6	) 3.5	
Retained Earnings	7,112.3	6,641.5	(470.8)
Consolidated Statements of Income				
Deferral of Acquisition Costs	\$(158.3	) \$(112.2	) \$46.1	
Amortization of Deferred Acquisition Costs	138.3	95.0	(43.3)
Income Tax - Deferred	39.5	38.5	(1.0)
Net Income	225.4	223.6	(1.8)
Net Income Per Common Share				
Basic	0.72	0.72	—	
Assuming Dilution	0.72	0.71	(0.01)
Consolidated Statements of Comprehensive Income				
Net Income	\$225.4	\$223.6	\$(1.8)
Change in Adjustment to Reserves for Future Policy and Contract Benefits, Net of Reinsurance and Other	113.2	113.2	—	
Change in Foreign Currency Translation Adjustment	26.8	26.5	(0.3)
Consolidated Statements of Cash Flows				
Net Income	\$225.4	\$223.6	\$(1.8)
Change in Deferred Acquisition Costs	(20.0	) (17.2	) 2.8	
Change in Income Taxes	83.0	82.0	(1.0)
December 31, 2011				
Consolidated Balance Sheets				
Deferred Acquisition Costs	\$2,300.9	\$1,677.1	\$(623.8)
Deferred Income Tax	261.2	44.7	(216.5)
Net Unrealized Gain on Securities Not Other-Than-Temporarily Impaired	605.8	614.8	9.0	
Foreign Currency Translation Adjustment	(121.5	) (117.6	) 3.9	
Retained Earnings	7,031.2	6,611.0	(420.2)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 2 - Accounting Developments - Continued

Accounting Updates Outstanding:

ASC 210 "Balance Sheet - Disclosures about Offsetting Assets and Liabilities"

In December 2011, the FASB issued an update to require additional disclosures and information about financial instruments and derivative instruments that are either offset on the balance sheet or are subject to an enforceable master netting arrangement. These disclosures are intended to provide information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments in this update are effective for interim and annual periods beginning on or after January 1, 2013. The adoption of this update will expand our disclosures but will have no effect on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments

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

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of dollars)			
Assets				
Fixed Maturity Securities	\$42,411.2	\$42,411.2	\$42,486.7	\$42,486.7
Mortgage Loans	1,615.9	1,792.1	1,612.3	1,789.8
Policy Loans	3,049.0	3,115.4	3,051.4	3,124.4
Other Long-term Investments				
Derivatives	111.9	111.9	137.7	137.7
Equity Securities	12.6	12.6	11.2	11.2
Miscellaneous Long-term Investments	452.8	452.8	436.4	436.4
Liabilities				
Policyholders' Funds				
Deferred Annuity Products	\$641.1	\$641.1	\$641.1	\$641.1
Supplementary Contracts without Life Contingencies	508.7	508.7	502.6	502.6
Long-term Debt	2,552.8	2,585.8	2,570.2	2,540.2
Other Liabilities				
Derivatives	174.3	174.3	173.7	173.7
Embedded Derivative in Modified Coinsurance Arrangement	123.4	123.4	135.7	135.7
Unfunded Commitments to Investment Partnerships	152.0	152.0	160.6	160.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

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

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

Mortgage Loans: Fair values are estimated using discounted cash flow analyses and interest rates currently being offered for similar loans to borrowers with similar credit ratings and maturities. Loans with similar characteristics are aggregated for purposes of the calculations. These financial instruments are assigned a Level 2 within the fair value hierarchy.

Policy Loans: Fair values for policy loans, net of reinsurance ceded, are estimated using discounted cash flow analyses and interest rates currently being offered to policyholders with similar policies. Carrying amounts for ceded policy loans, which equal \$2,834.9 million and \$2,838.3 million as of March 31, 2012 and December 31, 2011, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to reinsuring counterparties. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Miscellaneous Long-term Investments: Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Fair values for private equity partnerships are primarily derived from valuations provided by the general partner in the partnerships' financial statements. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Policyholders' Funds: Policyholders' funds are comprised primarily of deferred annuity products and supplementary contracts without life contingencies and represent customer deposits plus interest credited at contract rates. Carrying amounts approximate fair value. These financial instruments are assigned a Level 3 within the fair value hierarchy.

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

Long-term Debt: Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Debt instruments which are valued using active trades from independent pricing services for which there was current market activity in that specific debt instrument have a fair value of \$1,170.2 million at March 31, 2012 and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued based on prices from pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have a fair value of \$1,143.3 million at March 31, 2012 and are assigned a Level 2. Debt instruments which are valued using discounted cash flow analyses have a fair value of \$2.3 million at March 31, 2012 and are assigned a Level 3.

Unfunded Commitments to Investment Partnerships: Unfunded equity commitments represent legally binding amounts that we have committed to certain investment partnerships subject to the partnerships meeting specified conditions. When these conditions are met, we are obligated to invest these amounts in the partnerships. Carrying

amounts approximate fair value. These financial instruments are assigned a Level 2 within the fair value hierarchy.

Fair Value Measurements for Financial Instruments Carried at Fair Value

We report fixed maturity securities, derivative financial instruments, and equity securities at fair value in our consolidated balance sheets. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. An active market for a financial instrument is a market in which transactions for an asset or a similar asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and should be used to measure fair value whenever available. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

valuation techniques that require more judgment. Pricing observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions.

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types. The market approach uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. The income approach converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. The cost approach is based upon the amount that currently would be required to replace the service capacity of an asset, or the current replacement cost.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available that can be obtained without undue cost and effort. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate. If we use multiple valuation techniques to measure fair value, we evaluate and weigh the results, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach valuation technique provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our pricing vendors to ensure we are in agreement with their current methodologies. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. Our internal investment management professionals, which include portfolio managers and analysts, monitor securities priced by brokers and evaluate their prices for reasonableness based on benchmarking to available primary and secondary market information. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2012, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2011.

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

- Broker market maker prices and price levels
- Trade Reporting and Compliance Engine (TRACE) pricing
- Prices obtained from external pricing services

Benchmark yields (Treasury and interest rate swap curves)
Transactional data for new issuance and secondary trades
Security cash flows and structures
Recent issuance/supply
Sector and issuer level spreads
Security credit ratings/maturity/capital structure/optionality
Corporate actions
Underlying collateral
Prepayment speeds/loan performance/delinquencies/weighted average life/seasoning
Public covenants
Comparative bond analysis
Derivative spreads
Relevant reports issued by analysts and rating agencies
Audited financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

We actively manage our investment portfolio, establish pricing policy, and review the reasonableness of sources and inputs used in developing pricing. We review all prices obtained to ensure they are consistent with a variety of observable market inputs and to verify the validity of a security's price. In the event we receive a vendor's market price that does not appear reasonable based on our market analysis, we may challenge the price and request further information about the assumptions and methodologies used by the vendor to price the security. We may change the vendor price based on a better data source such as an actual trade. We also review all price changes from the prior month which fall outside a predetermined corridor. The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources when they do not represent a valid exit price. These adjustments may be made when, in our judgment and considering our knowledge of the financial conditions and industry in which the issuer operates, certain features of the financial instrument require that an adjustment be made to the value originally obtained from our pricing sources. These features may include the complexity of the financial instrument, the market in which the financial instrument is traded, counterparty credit risk, credit structure, concentration, or liquidity. Additionally, an adjustment to the price derived from a model typically reflects our judgment of the inputs that other participants in the market for the financial instrument being measured at fair value would consider in pricing that same financial instrument. In the event an asset is sold, we test the validity of the fair value determined by our valuation techniques by comparing the selling price to the fair value determined for the asset in the immediately preceding month end reporting period closest to the transaction date.

The parameters and inputs used to validate a price on a security may be adjusted for assumptions about risk and current market conditions on a quarter to quarter basis, as certain features may be more significant drivers of valuation at the time of pricing. Changes to inputs in valuations are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions.

Fair values for derivatives other than embedded derivatives in modified coinsurance arrangements are based on market quotes or pricing models and represent the net amount of cash we would have paid or received if the contracts had been settled or closed as of the last day of the period. We analyze credit default swap spreads relative to the average credit spread embedded within the London Interbank Offered Rate (LIBOR) setting syndicate in determining the effect of credit risk on our derivatives' fair values. If net counterparty credit risk for a derivative asset is determined to be material and is not adequately reflected in the LIBOR-based fair value obtained from our pricing sources, we adjust the valuations obtained from our pricing sources. For purposes of valuing net counterparty risk, we measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position or transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. In regard to our own credit risk component, we adjust the valuation of derivative liabilities wherein the counterparty is exposed to our credit risk when the LIBOR-based valuation of our derivatives obtained from pricing sources does not effectively include an adequate credit component for our own credit risk.

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

Certain of our investments do not have readily determinable market prices and/or observable inputs or may at times be affected by the lack of market liquidity. For these securities, we use internally prepared valuations combining matrix pricing with vendor purchased software programs, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, we may obtain prices from independent third-party brokers to aid in establishing

valuations for certain of these securities. Key assumptions used by us to determine fair value for these securities include risk free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

At March 31, 2012, approximately 14.7 percent of our fixed maturity securities were valued using active trades from TRACE pricing or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1, the highest category of the three-level fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

The remaining 85.3 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

Approximately 67.1 percent of our fixed maturity securities were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These assets were classified as Level 2. Level 2 assets or liabilities are those valued using inputs (other than prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Approximately 4.9 percent of our fixed maturity securities were valued based on one or more non-binding broker price levels, if validated by observable market data, or on TRACE prices for identical or similar assets absent current market activity. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.

Approximately 13.3 percent of our fixed maturity securities were valued based on prices of comparable securities, matrix pricing, market models, and/or internal models or were valued based on non-binding quotes with no other observable market data. These assets were classified as either Level 2 or Level 3, with the categorization dependent on whether there was other observable market data. Level 3 is the lowest category of the fair value hierarchy and reflects the judgment of management regarding what market participants would use in pricing assets or liabilities at the measurement date. Financial assets and liabilities categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

Fair value measurements by input level for financial instruments carried at fair value are as follows:

	March 31, 2012 (in millions of dollars)			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$ 118.7	\$ 1,130.9	\$ —	\$ 1,249.6
States, Municipalities, and Political Subdivisions	32.4	1,457.6	66.4	1,556.4
Foreign Governments	—	1,411.8	—	1,411.8
Public Utilities	1,041.5	8,851.1	548.3	10,440.9
Mortgage/Asset-Backed Securities	—	2,821.0	21.3	2,842.3
All Other Corporate Bonds	5,033.9	19,098.7	733.2	24,865.8
Redeemable Preferred Stocks	—	14.1	30.3	44.4
Total Fixed Maturity Securities	6,226.5	34,785.2	1,399.5	42,411.2
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	109.0	—	109.0
Foreign Exchange Contracts	—	2.9	—	2.9
Total Derivatives	—	111.9	—	111.9
Equity Securities	—	8.1	4.5	12.6
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	\$ —	\$ 31.2	\$ —	\$ 31.2
Foreign Exchange Contracts	—	143.1	—	143.1
Embedded Derivative in Modified Coinsurance Arrangement	—	—	123.4	123.4
Total Derivatives	—	174.3	123.4	297.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2011 (in millions of dollars)			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$326.6	\$977.8	\$—	\$1,304.4
States, Municipalities, and Political Subdivisions	107.3	1,416.2	68.1	1,591.6
Foreign Governments	—	1,376.7	—	1,376.7
Public Utilities	718.0	9,576.4	338.9	10,633.3
Mortgage/Asset-Backed Securities	—	2,941.5	31.7	2,973.2
All Other Corporate Bonds	3,469.5	20,415.1	665.5	24,550.1
Redeemable Preferred Stocks	—	20.2	37.2	57.4
Total Fixed Maturity Securities	4,621.4	36,723.9	1,141.4	42,486.7
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	134.2	—	134.2
Foreign Exchange Contracts	—	3.5	—	3.5
Total Derivatives	—	137.7	—	137.7
Equity Securities	—	—	11.2	11.2
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	\$—	\$32.9	\$—	\$32.9
Foreign Exchange Contracts	—	140.8	—	140.8
Embedded Derivative in Modified Coinsurance Arrangement	—	—	135.7	135.7
Total Derivatives	—	173.7	135.7	309.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

Transfers of assets between Level 1 and Level 2 are as follows:

	Three Months Ended March 31			
	2012		2011	
	(in millions of dollars)			
	Transfers into			
	Level 1 from Level 2	Level 2 from Level 1	Level 1 from Level 2	Level 2 from Level 1
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$—	\$204.2	\$16.1	\$—
States, Municipalities, and Political Subdivisions	—	43.8	25.4	274.9
Foreign Governments	—	—	—	0.7
Public Utilities	826.2	454.4	885.5	481.1
All Other Corporate Bonds	3,042.8	1,684.5	3,064.3	1,540.8
Total Fixed Maturity Securities	\$3,869.0	\$2,386.9	\$3,991.3	\$2,297.5

Transfers between Level 1 and Level 2 occurred due to the change in availability of either a TRACE or broker market maker price. Depending on current market conditions, the availability of these Level 1 prices can vary from period to period. For fair value measurements of financial instruments that were transferred either into or out of Level 1 or 2, we reflect the transfers using the fair value at the beginning of the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

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

Three Months Ended March 31, 2012 (in millions of dollars)								
	Beginning of Year	Earnings	Total Realized and Unrealized Investment Gains (Losses) Included in Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Out of	End of Period
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$68.1	\$—	\$(3.2)	) \$—	\$—	\$9.9	\$(8.4)	) \$66.4
Public Utilities	338.9	—	(0.1)	) —	(0.9)	416.9	(206.5)	) 548.3
Mortgage/Asset-Backed Securities	31.7	—	2.4	—	—	—	(12.8)	) 21.3
All Other Corporate Bonds	665.5	—	7.0	12.0	(40.3)	223.0	(134.0)	) 733.2
Redeemable Preferred Stocks	37.2	(1.0)	) 2.1	—	(14.3)	6.3	—	30.3
Total Fixed Maturity Securities	1,141.4	(1.0)	) 8.2	12.0	(55.5)	656.1	(361.7)	) 1,399.5
Equity Securities	11.2	—	—	—	—	—	(6.7)	) 4.5
Embedded Derivative in Modified Coinsurance Arrangement	(135.7)	) 12.3	—	—	—	—	—	(123.4)

Three Months Ended March 31, 2011 (in millions of dollars)								
	Beginning of Year	Earnings	Total Realized and Unrealized Investment Gains (Losses) Included in Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Out of	End of Period
Fixed Maturity Securities								
Public Utilities	\$173.6	\$—	\$(0.7)	) \$7.0	\$(0.3)	\$249.7	\$(104.6)	) \$324.7
Mortgage/Asset-Backed Securities	0.7	—	(1.6)	) —	(2.2)	35.3	—	32.2
All Other Corporate Bonds	829.7	(0.2)	) 0.5	16.7	(3.3)	153.1	(362.7)	) 633.8
Redeemable Preferred Stocks	21.7	—	—	—	—	—	(21.6)	) 0.1

Total Fixed Maturity Securities	1,025.7	(0.2	)	(1.8	)	23.7	(5.8	)	438.1	(488.9	)	990.8
Equity Securities	1.5	—	—	—	—	—	—	—	—	—	—	1.5	
Embedded Derivative in Modified Coinsurance Arrangement	(96.3)	14.1	—	—	—	—	—	—	—	—	(82.2)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 3 - Fair Values of Financial Instruments - Continued

Realized and unrealized investment gains and losses presented in the preceding tables represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the level of activity in the market and whether the market was considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of

Level 3, we reflect the transfers using the fair value at the beginning of the period. Gains for the three months ended March 31, 2012 and 2011 which are included in earnings and are attributable to the change in unrealized gains or losses relating to assets or liabilities valued using significant unobservable inputs and still held at period end were \$12.3 million and \$14.1 million, respectively. These amounts relate entirely to the changes in fair value of an embedded derivative in a modified coinsurance arrangement which are reported as realized investment gains.

Quantitative information regarding the significant unobservable inputs used in Level 3 fair value measurements, all of which are internally derived, is as follows:

		March 31, 2012 (in millions of dollars)	
	Fair Value	Unobservable Input	Range/Weighted Average
Fixed Maturity Securities			
States, Municipalities, and Political Subdivisions - Private	\$66.4	- Comparability Adjustment	(b) 0.50% - 1.25%/0.87%
		- Discount for Size	(c) 0.20% - 0.20%/0.20%
		- Volatility of Credit	(e) 0.25% - 0.25%/0.25%
Mortgage/Asset-Backed Securities - Private	0.6	- Discount for Size	(c) 4.99% - 5.08%/5.06%
		- Change in Benchmark Reference	(a) 1.65% - 1.65%/1.65%
All Other Corporate Bonds - Private	295.6	- Comparability Adjustment	(b) 0.03% - 0.75%/0.50%
		- Discount for Size	(c) 0.50% - 0.50%/0.50%
		- Lack of Marketability	(d) 0.50% - 1.00%/0.74%
		- Volatility of Credit	(e) (0.50)% - 7.72%/1.27%
		- Market Convention	(f) Priced at Par
		- Change in Benchmark Reference	(a) 0.25% - 0.47%/0.27%
All Other Corporate Bonds - Public	117.5	- Comparability Adjustment	(b) 0.25% - 0.50%/0.41%
		- Discount for Size	(c) 0.25% - 0.25%/0.25%
		- Market Convention	(f) Priced at Cost or Owner's Equity
Equity Securities - Private	4.0	- Market Convention	(f) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(123.4)	- Projected Liability Cash Flows	(g) Actuarial Assumptions

(a) Represents basis point adjustments for changes in benchmark spreads associated with various ratings categories

(b) Represents basis point adjustments for changes in benchmark spreads associated with various industry sectors

- (c) Represents basis point adjustments based on issue/issuer size relative to the benchmark
- (d) Represents basis point adjustments to apply a discount due to illiquidity
- (e) Represents basis point adjustments for credit-specific factors
- (f) Represents a decision to price based on par value, cost, or owner's equity when limited data is available
- (g) Represents various actuarial assumptions required to derive the liability cash flows including incidence, termination, and lapse rates

Isolated increases in unobservable inputs other than market convention will result in a lower fair value measurement, whereas isolated decreases will result in a higher fair value measurement. The unobservable input for market convention is not sensitive to input movements. The projected liability cash flows used in the fair value measurement of our Level 3 embedded derivative are based on expected claim payments. If claim payments increase, the projected liability cash flows will increase, resulting in a decrease in the fair value of the embedded derivative. Decreases in projected liability cash flows will result in an increase in the fair value of the embedded derivative.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments

Fixed Maturity Securities

At March 31, 2012 and December 31, 2011, all fixed maturity securities were classified as available-for-sale. The amortized cost and fair values of securities by security type are shown as follows.

March 31, 2012 (in millions of dollars)				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
United States Government and Government Agencies and Authorities	\$997.1	\$254.5	\$2.0	\$1,249.6
States, Municipalities, and Political Subdivisions	1,341.1	226.5	11.2	1,556.4
Foreign Governments	1,185.3	226.5	—	1,411.8
Public Utilities	9,026.0	1,451.0	36.1	10,440.9
Mortgage/Asset-Backed Securities	2,504.4	338.8	0.9	2,842.3
All Other Corporate Bonds	21,793.6	3,178.8	106.6	24,865.8
Redeemable Preferred Stocks	40.5	4.5	0.6	44.4
Total Fixed Maturity Securities	\$36,888.0	\$5,680.6	\$157.4	\$42,411.2

December 31, 2011 (in millions of dollars)				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
United States Government and Government Agencies and Authorities	\$1,005.8	\$299.7	\$1.1	\$1,304.4
States, Municipalities, and Political Subdivisions	1,377.8	222.6	8.8	1,591.6
Foreign Governments	1,139.4	237.3	—	1,376.7
Public Utilities	9,015.7	1,646.2	28.6	10,633.3
Mortgage/Asset-Backed Securities	2,634.6	344.1	5.5	2,973.2
All Other Corporate Bonds	21,411.6	3,314.8	176.3	24,550.1
Redeemable Preferred Stocks	55.8	3.5	1.9	57.4
Total Fixed Maturity Securities	\$36,640.7	\$6,068.2	\$222.2	\$42,486.7

As of March 31, 2012 and December 31, 2011, we held no fixed maturity securities for which a portion of an other-than-temporary impairment had previously been recognized in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments - Continued

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

	March 31, 2012 (in millions of dollars)			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
United States Government and Government Agencies and Authorities	\$8.9	\$0.2	\$5.6	\$1.8
States, Municipalities, and Political Subdivisions	68.7	3.8	74.8	7.4
Public Utilities	229.4	19.0	128.9	17.1
Mortgage/Asset-Backed Securities	38.6	0.3	9.0	0.6
All Other Corporate Bonds	1,253.4	39.9	590.1	66.7
Redeemable Preferred Stocks	—	—	6.9	0.6
Total Fixed Maturity Securities	\$1,599.0	\$63.2	\$815.3	\$94.2
	December 31, 2011 (in millions of dollars)			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
United States Government and Government Agencies and Authorities	\$—	\$—	\$6.3	\$1.1
States, Municipalities, and Political Subdivisions	51.6	1.3	75.3	7.5
Public Utilities	192.0	7.9	142.2	20.7
Mortgage/Asset-Backed Securities	94.2	4.8	19.6	0.7
All Other Corporate Bonds	1,703.9	65.5	684.9	110.8
Redeemable Preferred Stocks	—	—	20.9	1.9
Total Fixed Maturity Securities	\$2,041.7	\$79.5	\$949.2	\$142.7

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

	March 31, 2012 (in millions of dollars)				
	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
1 year or less	\$617.5	\$17.3	\$629.8	\$—	\$5.0
Over 1 year through 5 years	5,281.0	496.2	5,428.0	6.2	343.0
Over 5 years through 10 years	9,659.8	1,315.4	10,269.9	34.5	670.8
Over 10 years	18,825.3	3,512.9	20,874.5	115.8	1,347.9
	34,383.6	5,341.8	37,202.2	156.5	2,366.7
Mortgage/Asset-Backed Securities	2,504.4	338.8	2,794.7	0.9	47.6

Total Fixed Maturity Securities	\$36,888.0	\$5,680.6	\$39,996.9	\$157.4	\$2,414.3
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments - Continued

	December 31, 2011 (in millions of dollars)				
	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
1 year or less	\$715.1	\$16.0	\$701.4	\$0.1	\$29.6
Over 1 year through 5 years	5,161.5	449.8	4,949.0	20.7	641.6
Over 5 years through 10 years	9,630.5	1,266.3	9,903.8	52.8	940.2
Over 10 years	18,499.0	3,992.0	21,082.2	143.1	1,265.7
	34,006.1	5,724.1	36,636.4	216.7	2,877.1
Mortgage/Asset-Backed Securities	2,634.6	344.1	2,859.4	5.5	113.8
Total Fixed Maturity Securities	\$36,640.7	\$6,068.2	\$39,495.8	\$222.2	\$2,990.9

At March 31, 2012, the fair value of investment-grade fixed maturity securities was \$39,474.5 million, with a gross unrealized gain of \$5,533.2 million and a gross unrealized loss of \$88.0 million. The gross unrealized loss on investment-grade fixed maturity securities was 55.9 percent of the total gross unrealized loss on fixed maturity securities. Unrealized losses on investment-grade fixed maturity securities principally relate to changes in interest rates or changes in market or sector credit spreads which occurred subsequent to the acquisition of the securities.

At March 31, 2012, the fair value of below-investment-grade fixed maturity securities was \$2,936.7 million, with a gross unrealized gain of \$147.4 million and a gross unrealized loss of \$69.4 million. The gross unrealized loss on below-investment-grade fixed maturity securities was 44.1 percent of the total gross unrealized loss on fixed maturity securities. Generally, below-investment-grade fixed maturity securities are more likely to develop credit concerns than investment-grade securities. At March 31, 2012, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads in certain industries or sectors and, to a lesser extent, credit concerns related to specific securities. For each specific security in an unrealized loss position, we believe that there are positive factors which mitigate credit concerns and that the securities for which we have not recorded an other-than-temporary impairment will recover in value.

As of March 31, 2012, we held 88 individual investment-grade fixed maturity securities and 45 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 30 investment-grade fixed maturity securities and 20 below-investment-grade fixed maturity securities had been in an unrealized loss position continuously for over one year.

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

- Whether we expect to recover the entire amortized cost basis of the security
- Whether we intend to sell the security or will be required to sell the security before the recovery of its amortized cost basis
- Whether the security is current as to principal and interest payments
- The significance of the decline in value
 - The time period during which there has been a significant decline in value

Current and future business prospects and trends of earnings
The valuation of the security's underlying collateral
Relevant industry conditions and trends relative to their historical cycles
Market conditions
Rating agency and governmental actions
Bid and offering prices and the level of trading activity
Adverse changes in estimated cash flows for securitized investments
Changes in fair value subsequent to the balance sheet date
Any other key measures for the related security

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments - Continued

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

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

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

Other-than-temporary impairment losses on fixed maturity securities which we intend to sell or more likely than not will be required to sell before recovery in value are recognized in earnings and equal the entire difference between the security's amortized cost basis and its fair value. For securities which we do not intend to sell and it is not more likely than not that we will be required to sell before recovery in value, other-than-temporary impairment losses recognized in earnings generally represent the difference between the amortized cost of the security and the present value of our best estimate of cash flows expected to be collected, discounted using the effective interest rate implicit in the security at the date of acquisition. The determination of cash flows is inherently subjective, and methodologies may vary depending on the circumstances specific to the security. The timing and amount of our cash flow estimates are developed using historical and forecast financial information from the issuer, including its current and projected liquidity position. We also consider industry analyst reports and forecasts, sector credit ratings, future business prospects and earnings trends, issuer refinancing capabilities, actual and/or potential asset sales by the issuer, and other data relevant to the collectibility of the contractual cash flows of the security. We take into account the probability of default, expected recoveries, third party guarantees, quality of collateral, and where our debt security ranks in terms of subordination. We may use the estimated fair value of collateral as a proxy for the present value of cash flows if we believe the security is dependent on the liquidation of collateral for recovery of our investment. For fixed maturity securities for which we have recognized an other-than-temporary impairment loss through earnings, if through subsequent evaluation there is a significant increase in expected cash flows, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as net investment income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments - Continued

The following table presents the before-tax credit related portion of other-than-temporary impairments on fixed maturity securities still held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income. We held no fixed maturity securities as of the beginning of 2012 or at the end of the first quarter of 2012 for which a portion of an other-than-temporary impairment was previously recognized in other comprehensive income.

	Three Months Ended March 31, 2011 (in millions of dollars)
Balance at Beginning of Year	\$8.5
Sales or Maturities of Securities	(8.5)
Balance at End of Period	\$—

At March 31, 2012, we had non-binding commitments of \$81.0 million to fund private placement fixed maturity securities.

Variable Interest Entities

We invest in variable interests issued by variable interest entities. These investments include tax credit partnerships, private equity partnerships, and special purpose entities. For those variable interests that are not consolidated in our financial statements, we are not the primary beneficiary because we have neither the power to direct the activities that are most significant to economic performance nor the responsibility to absorb a majority of the expected losses. The determination of whether we are the primary beneficiary is performed at the time of our initial investment and at the date of each subsequent reporting period.

As of March 31, 2012, the carrying amount of our variable interest entity investments that are not consolidated under the provisions of GAAP was \$444.2 million, comprised of \$339.2 million of tax credit partnerships and \$105.0 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

Additionally, we recognize a liability for all legally binding unfunded commitments to these partnerships, with a corresponding recognition of an invested asset. Our liability for legally binding unfunded commitments to the tax credit partnerships was \$152.0 million at March 31, 2012. Contractually, we are a limited partner in these investments, and our maximum exposure to loss is limited to the carrying value of our investment. We had non-binding commitments of \$84.9 million to fund certain private equity partnerships at March 31, 2012, the amount of which may or may not be funded.

We are the sole beneficiary of a special purpose entity which is consolidated under the provisions of GAAP. This entity is a securitized asset trust containing a highly rated bond for principal protection, nonredeemable preferred stock, and several partnership equity investments. We contributed the bond and partnership investments into the trust at the time it was established. The trust supports our investment objectives and allows us to maintain our investment in the partnerships while at the same time protecting the principal of the investment. There are no restrictions on the assets held in this trust, and the trust is free to dispose of the assets at any time. Because the assets in the trust are not liquid investments, we periodically provide funding to the underlying partnerships in the trust upon satisfaction of contractual notice from the partnerships. The fair values of the bond, nonredeemable preferred stock, and partnerships were \$125.0 million, \$0.1 million, and \$8.6 million, respectively, as of March 31, 2012. The bonds are reported as

fixed maturity securities, and the nonredeemable preferred stock and partnerships are reported as other long-term investments in our consolidated balance sheets. At March 31, 2012, we had no commitments to fund the underlying partnerships, nor did we fund any amounts to the partnerships during the three months ended March 31, 2012 and 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments - Continued

Mortgage Loans

Our mortgage loan portfolio is well diversified by both geographic region and property type to reduce risk of concentration. All of our mortgage loans are collateralized by commercial real estate. When issuing a new loan, our general policy is not to exceed a loan-to-value ratio, or the ratio of the loan balance to the estimated fair value of the underlying collateral, of 75 percent. We update the loan-to-value ratios at least every three years for each loan, and properties undergo a general inspection at least every two years. Our general policy for newly issued loans is to have a debt service coverage ratio greater than 1.25 times on a normalized 25 year amortization period. We update our debt service coverage ratios annually.

Mortgage loans by property type and geographic region are as follows:

	March 31, 2012			December 31, 2011		
	Carrying Amount	Percent of Total		Carrying Amount	Percent of Total	
	(in millions of dollars)					
Property Type						
Apartment	\$27.8	1.7	%	\$28.0	1.8	%
Industrial	504.5	31.2		502.0	31.1	
Mixed	93.0	5.8		93.5	5.8	
Office	663.8	41.1		659.3	40.9	
Retail	319.8	19.8		322.4	20.0	
Other	7.0	0.4		7.1	0.4	
Total	\$1,615.9	100.0	%	\$1,612.3	100.0	%
Region						
New England	\$145.8	9.0	%	\$147.0	9.1	%
Mid-Atlantic	172.5	10.7		174.1	10.8	
East North Central	211.3	13.1		212.7	13.2	
West North Central	149.9	9.3		151.2	9.4	
South Atlantic	397.5	24.6		383.8	23.8	
East South Central	52.1	3.2		52.4	3.3	
West South Central	158.8	9.8		160.4	9.9	
Mountain	69.0	4.3		69.5	4.3	
Pacific	259.0	16.0		261.2	16.2	
Total	\$1,615.9	100.0	%	\$1,612.3	100.0	%

We evaluate each of our mortgage loans individually for impairment and assign an internal credit quality rating based on a comprehensive rating system used to evaluate the credit risk of the loan. The factors we use to derive our internal credit ratings may include the following:

• Loan-to-value ratio

• Debt service coverage ratio based on current operating income

• Property location, including regional economics, trends and demographics

• Age, condition, and construction quality of property

• Current and historical occupancy of property

Lease terms relative to market
Tenant size and financial strength
Borrower's financial strength
Borrower's equity in transaction
Additional collateral, if any

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments - Continued

Although all available and applicable factors are considered in our analysis, loan-to-value and debt service coverage ratios are the most critical factors in determining whether we will initially issue the loan and also in assigning values and determining impairment. We assign an overall rating to each loan using an internal rating scale of Aa (highest quality) to B (lowest quality). We review and adjust, as needed, our internal credit quality ratings on an annual basis. This review process is performed more frequently for mortgage loans deemed to have a higher risk of delinquency.

Mortgage loans, sorted by the applicable credit quality indicators, are as follows:

	March 31 2012	December 31 2011
	(in millions of dollars)	
Internal Rating		
Aa	\$13.9	\$10.9
A	690.7	712.6
Baa	878.1	855.0
Ba	20.1	20.7
B	13.1	13.1
Total	\$1,615.9	\$1,612.3
Loan-to-Value Ratio		
<= 65%	\$614.7	\$578.4
> 65% <= 75%	778.3	802.3
> 75% <= 85%	171.6	165.1
> 85% <= 100%	51.3	66.5
Total	\$1,615.9	\$1,612.3

Based on an analysis of the above risk factors, as well as other current information, if we determine that it is probable we will be unable to collect all amounts due under the contractual terms of the mortgage loan, we establish an allowance for credit loss. If we expect to foreclose on the property, the amount of the allowance typically equals the excess carrying value of the mortgage loan over the fair value of the underlying collateral. If we expect to retain the mortgage loan until payoff, the allowance equals the excess carrying value of the mortgage loan over the expected future cash flows of the loan. The projection of future cash flows or a determination that the borrower can make the contractual payments is inherently subjective, and methodologies may vary depending on the circumstances specific to the loan. Additions and reductions to our allowance for credit losses on mortgage loans are reported as a component of net realized investment gains and losses. There have been no changes to our accounting policies or methodology from the prior period regarding estimating the allowance for credit losses on our mortgage loans.

The activity in the allowance for credit losses is as follows:

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars)	
Balance at Beginning of Year	\$1.5	\$1.5
Provision	0.5	—
Balance at End of Period	\$2.0	\$1.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments - Continued

Impaired mortgage loans are as follows:

March 31, 2012 (in millions of dollars)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an Allowance Recorded	\$22.0	\$24.0	\$2.0
December 31, 2011 (in millions of dollars)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With No Related Allowance Recorded	\$9.4	\$9.4	\$—
With an Allowance Recorded	13.1	14.6	1.5
Total	\$22.5	\$24.0	\$1.5

For the three months ended March 31, 2012 and 2011, our average investment in impaired mortgage loans was \$23.7 million and \$13.1 million, respectively. For the three months ended March 31, 2012 and 2011, we recognized \$0.2 million and \$0.3 million of interest income, respectively, on mortgage loans subsequent to impairment.

Our troubled debt restructurings during the three months ended March 31, 2012 and 2011 were comprised entirely of loan foreclosures. A summary of our troubled debt restructurings is as follows:

		Three Months Ended March 31	
		2012	2011
		(in millions of dollars)	
Foreclosure			
Carrying Amount		\$4.2	\$9.8
Number of Loans		1	1

We had no realized losses on loan foreclosures for the three months ended March 31, 2012 and 2011.

As of March 31, 2012 and December 31, 2011, we held one mortgage loan that was past due regarding principal and interest payments and for which we had discontinued the accrual of investment income. This loan was greater than 90 days past due as of March 31, 2012 and December 31, 2011 and had a carrying value of \$8.9 million and \$9.4 million, respectively.

At March 31, 2012, we had non-binding commitments of \$29.9 million to fund certain commercial mortgage loans, the amount of which may or may not be funded.

Transfers of Financial Assets

To manage our cash position more efficiently, we may enter into repurchase agreements with unaffiliated financial institutions. We generally use repurchase agreements as a means to finance the purchase of invested assets or for

short-term general business purposes until projected cash flows become available from our operations or existing investments. Our repurchase agreements are typically outstanding for less than 30 days. We post collateral through our repurchase agreement transactions whereby the counterparty commits to purchase securities with the agreement to resell them to us at a later, specified date. The fair value of collateral posted is generally 102 percent of the cash received.

Our investment policy also permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements. These agreements increase our investment income with minimal risk. Our securities lending policy requires that a minimum of 102 percent of the fair value of the securities loaned be maintained as collateral. Generally, cash is received as collateral under these agreements and is typically reinvested in short-term investments. In the event that securities are received as collateral, we are not permitted to sell or re-post them.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 4 - Investments - Continued

We account for all of our securities lending agreements and repurchase agreements as collateralized financings. As of March 31, 2012, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$374.1 million, for which we received collateral in the form of cash and securities of \$372.2 million and \$16.4 million, respectively. As of December 31, 2011, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$319.1 million, for which we received collateral in the form of cash and securities of \$312.3 million and \$16.7 million, respectively. We had no outstanding repurchase agreements at March 31, 2012 or December 31, 2011.

Realized Investment Gain and Loss

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

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars)	
Fixed Maturity Securities		
Gross Gains on Sales	\$5.9	\$9.5
Gross Losses on Sales	(5.0)	(6.9)
Other-Than-Temporary Impairment Loss	—	(2.3)
Mortgage Loans and Other Invested Assets		
Gross Gains on Sales	—	1.2
Impairment Loss	(0.5)	—
Embedded Derivative in Modified Coinsurance Arrangement	12.3	14.1
Foreign Currency Transactions	(0.3)	(0.4)
Net Realized Investment Gain	\$12.4	\$15.2

Note 5 - Derivative Financial Instruments

Purpose of Derivatives

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

Our cash flow hedging programs are as follows:

Interest rate swaps are used to hedge interest rate risks and to improve the matching of assets and liabilities. An interest rate swap is an agreement in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and variable rate interest amounts. The purpose of these swaps is to hedge the anticipated purchase of fixed maturity securities thereby protecting us from the potential adverse impact of declining interest rates on the associated policy reserves. We also use interest rate swaps to hedge the potential adverse impact

of rising interest rates in anticipation of issuing fixed rate long-term debt.

Foreign currency interest rate swaps have historically been used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification and to hedge the currency risk associated with certain of the interest payments and debt repayments of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. For hedges of fixed maturity securities, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment. For hedges of debt issued, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments to the counterparty in exchange for fixed rate U.S. dollar-denominated interest payments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 5 - Derivative Financial Instruments - Continued

Forward treasury locks are used to minimize interest rate risk associated with the anticipated purchase or disposal of fixed maturity securities. A forward treasury lock is a derivative contract without an initial investment where we and the counterparty agree to purchase or sell a specific U.S. Treasury bond at a future date at a pre-determined price.

Foreign currency forward contracts are used to minimize foreign currency risks. A foreign currency forward is a derivative without an initial investment where we and the counterparty agree to exchange a specific amount of currencies, at a specific exchange rate, on a specific date. We use these forward contracts to hedge the foreign currency risk associated with certain of the debt repayments of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries and to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for diversification purposes.

Our fair value hedging programs are as follows:

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

Derivative Risks

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

To help limit the credit exposure of the derivatives, we enter into master netting agreements with our counterparties whereby contracts in a gain position can be offset against contracts in a loss position. We also typically enter into bilateral, cross-collateralization agreements with our counterparties to help limit the credit exposure of the derivatives. These agreements require the counterparty in a loss position to submit acceptable collateral with the other counterparty in the event the net loss position meets or exceeds an agreed upon amount. Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position less collateral held, was \$8.7 million at March 31, 2012. We held cash collateral of \$42.6 million and \$45.6 million from our counterparties as of March 31, 2012 and December 31, 2011, respectively. This unrestricted cash collateral is included in short-term investments, and the associated obligation to return the collateral to our counterparties is included in other liabilities in our consolidated balance sheets. We post either fixed maturity securities or cash as collateral to our counterparties. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$135.1 million and \$114.9 million at March 31, 2012 and December 31, 2011, respectively. We had no cash posted as collateral to our counterparties at March 31, 2012 and December 31, 2011.

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

position was \$174.3 million and \$173.7 million at March 31, 2012 and December 31, 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 5 - Derivative Financial Instruments - Continued

Hedging Activity

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

	Swaps Receive Variable/Pay Fixed	Receive Fixed/Pay Fixed	Receive Fixed/Pay Variable	Forwards	Total
	(in millions of dollars)				
Balance at December 31, 2010	\$ 174.0	\$ 617.9	\$ 890.0	\$—	\$ 1,681.9
Additions	—	—	—	19.9	19.9
Terminations	—	11.0	55.0	19.9	85.9
Balance at March 31, 2011	\$ 174.0	\$ 606.9	\$ 835.0	\$—	\$ 1,615.9
Balance at December 31, 2011	\$ 174.0	\$ 554.0	\$ 685.0	\$—	\$ 1,413.0
Additions	—	—	—	35.0	35.0
Terminations	—	3.9	45.0	35.0	83.9
Balance at March 31, 2012	\$ 174.0	\$ 550.1	\$ 640.0	\$—	\$ 1,364.1

The following table summarizes the timing of anticipated settlements of interest rate swaps outstanding under our cash flow hedging programs at March 31, 2012, whereby we receive a fixed rate and pay a variable rate. The weighted average variable interest rates assume current market conditions.

	2012	2013	Total	
	(in millions of dollars)			
Notional Value	\$ 140.0	\$ 150.0	\$ 290.0	
Weighted Average Receive Rate	6.49	% 6.34	% 6.41	%
Weighted Average Pay Rate	0.47	% 0.47	% 0.47	%

Cash Flow Hedges

As of March 31, 2012 and December 31, 2011, we had \$290.0 million and \$335.0 million, respectively, notional amount of forward starting interest rate swaps to hedge the anticipated purchase of fixed maturity securities.

As of March 31, 2012 and December 31, 2011, we had \$550.1 million and \$554.0 million, respectively, notional amount of open current and forward foreign currency swaps to hedge fixed income foreign currency-denominated securities.

During the three months ended March 31, 2012, we entered into and subsequently terminated \$35.0 million notional amount of forward treasury locks used to minimize interest rate risk associated with the anticipated disposal of certain fixed maturity securities. These treasury locks were terminated at the time the securities were called, and we recognized a loss of \$0.1 million on the termination of these hedges. The loss was recognized in other comprehensive income and subsequently amortized into net investment income.

During the three months ended March 31, 2011, we entered into and subsequently terminated \$19.9 million notional amount of forward treasury locks used to minimize interest rate risk associated with the anticipated disposal of certain fixed maturity securities. These treasury locks were terminated at the time the securities were called and/or sold, and

we recognized a gain of \$0.1 million on the termination of these hedges. The gain was recognized in other comprehensive income and subsequently amortized into net investment income.

For the three months ended March 31, 2012 and 2011, there was no material ineffectiveness related to our cash flow hedges, and no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness.

As of March 31, 2012, we expect to amortize approximately \$36.2 million of net deferred gains on derivative instruments during the next twelve months. This amount will be reclassified from accumulated other comprehensive income into earnings and reported on the same income statement line item as the hedged item. The income statement line items that will be affected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 5 - Derivative Financial Instruments - Continued

by this amortization are net investment income and interest and debt expense. The estimated amortization includes the impact of certain derivative contracts that have not yet been terminated as of March 31, 2012. Fluctuations in fair values of these derivatives between March 31, 2012 and the date of termination will vary our projected amortization. Amounts that will be reclassified from accumulated other comprehensive income into earnings to offset the earnings impact of foreign currency translation of hedged items are not estimable.

As of March 31, 2012, we are hedging the variability of future cash flows associated with forecasted transactions through the year 2038.

Fair Value Hedges

As of March 31, 2012 and December 31, 2011, we had \$174.0 million notional amount of receive variable, pay fixed interest rate swaps to hedge the changes in fair value of certain fixed rate securities held. These swaps effectively convert the associated fixed rate securities into floating rate securities, which are used to fund our floating rate long-term debt. Changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the risk being hedged are recognized in current earnings as a component of net realized investment gain or loss during the period of change in fair value. For the three months ended March 31, 2012 and 2011, the change in fair value of the hedged fixed maturity securities attributable to the hedged benchmark interest rate resulted in losses of \$1.7 million and \$2.6 million, respectively, with offsetting gains on the related interest rate swaps.

As of March 31, 2012 and December 31, 2011, we had a \$350.0 million notional amount receive fixed, pay variable interest rate swap to hedge the changes in the fair value of certain fixed rate long-term debt. This swap effectively converts the associated fixed rate long-term debt into floating rate debt and provides for a better matching of interest rates with our short-term investments, which have frequent interest rate resets similar to a floating rate security. For the three months ended March 31, 2012, the change in fair value of the hedged fixed debt attributable to the hedged benchmark interest rate resulted in a de minimis loss, with an offsetting de minimis gain on the related interest rate swaps. For the three months ended March 31, 2011, the change in fair value of the hedged fixed debt attributable to the hedged benchmark interest rate resulted in a gain of \$2.1 million, with an offsetting loss on the related interest rate swaps.

For the three months ended March 31, 2012 and 2011, there was no material ineffectiveness related to our fair value hedges, and no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness. There were no instances wherein we discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

Derivatives Not Designated as Hedging Instruments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 5 - Derivative Financial Instruments - Continued

Locations and Amounts of Derivative Financial Instruments

The following tables summarize the location and fair values of derivative financial instruments, as reported in our consolidated balance sheets.

March 31, 2012 (in millions of dollars)				
Asset Derivatives		Liability Derivatives		
Balance Sheet	Fair	Balance Sheet	Fair	
Location	Value	Location	Value	
Designated as Hedging Instruments				
Interest Rate Swaps	Other L-T Investments	\$ 109.0	Other Liabilities	\$ 31.2
Foreign Exchange Contracts	Other L-T Investments	2.9	Other Liabilities	143.1
Total		\$ 111.9		\$ 174.3
Not Designated as Hedging Instruments				
Embedded Derivative in Modified Coinsurance Arrangement		Other Liabilities		\$ 123.4
December 31, 2011 (in millions of dollars)				
Asset Derivatives		Liability Derivatives		
Balance Sheet	Fair	Balance Sheet	Fair	
Location	Value	Location	Value	
Designated as Hedging Instruments				
Interest Rate Swaps	Other L-T Investments	\$ 134.2	Other Liabilities	\$ 32.9
Foreign Exchange Contracts	Other L-T Investments	3.5	Other Liabilities	140.8
Total		\$ 137.7		\$ 173.7
Not Designated as Hedging Instruments				
Embedded Derivative in Modified Coinsurance Arrangement		Other Liabilities		\$ 135.7

The following tables summarize the location of and gains and losses on derivative financial instruments designated as cash flow hedging instruments, as reported in our consolidated statements of income and consolidated statements of comprehensive income.

	Three Months Ended March 31, 2012		
	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) (in millions of dollars)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
Interest Rate Swaps and Forwards	\$18.3	\$9.1	(1)
Interest Rate Swaps	—	0.1	(2)
Interest Rate Swaps	—	(0.4	) (3)
Foreign Exchange Contracts	—	(0.2	) (1)
Foreign Exchange Contracts	(2.9	) (12.4	) (2)
Total	\$15.4	\$(3.8)

- (1) Gain (loss) recognized in net investment income
- (2) Gain (loss) recognized in net realized investment gain
- (3) Loss recognized in interest and debt expense

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 5 - Derivative Financial Instruments - Continued

	Three Months Ended March 31, 2011	
	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) (in millions of dollars)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest Rate Swaps and Forwards	\$ 14.6	\$8.4 (1)
Interest Rate Swaps	—	1.2 (2)
Interest Rate Swaps	—	(0.4) (3)
Foreign Exchange Contracts	—	(0.3) (1)
Foreign Exchange Contracts	(7.9)	(18.5) (2)
Total	\$6.7	\$(9.6)

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

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

(3) Loss recognized in interest and debt expense

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

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars)	
Gain Recognized in Net Realized Investment Gain	\$ 12.3	\$ 14.1

Note 6 - Segment Information

Our reporting segments are comprised of Unum US, Unum UK, Colonial Life, Closed Block, and Corporate. Effective with the fourth quarter of 2011 we modified our reporting segments to reclassify our long-term care products from the Unum US segment to the Closed Block segment. We also reclassified our other insurance products not actively marketed which were previously reported in the Corporate and Other segment to the Closed Block segment. Prior period segment results have been adjusted to reflect this change in our reporting classifications.

In the following segment financial data, "operating revenue" excludes net realized investment gains or losses. "Operating income" or "operating loss" excludes net realized investment gains or losses, non-operating retirement-related gains or losses, and income tax. These are considered non-GAAP financial measures. These non-GAAP financial measures of "operating revenue" and "operating income" or "operating loss" differ from revenue and income before income tax as presented in our consolidated statements of income prepared in accordance with GAAP due to the exclusion of before-tax realized investment gains or losses and non-operating retirement-related gains or losses. We previously allocated the amortization of prior period actuarial gains or losses, the component of the net periodic benefit costs for our pensions and other postretirement benefit plans which we consider to be non-operating, to our Corporate segment. During the first quarter of 2012, we determined that we would modify our segment reporting. Effective January 1, 2012, the amortization of prior period actuarial gains or losses is no longer included in operating income or operating loss by segment. Prior period segment results for our Corporate segment have been adjusted to conform to current year reporting.

We measure segment performance excluding these items because we believe this performance measure is a better indicator of the profitability and underlying trends in our business. Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains or losses. A long-term focus is necessary to maintain profitability over the life of the business, although we may experience realized investment losses which will affect future earnings levels since our underlying business is long-term in nature and we need to earn the interest rates assumed in calculating our liabilities. Our non-operating retirement-related gains or losses are primarily driven by market performance and are not indicative of the operational results of our businesses. However, although we manage our non-operating retirement-related gains or losses separately from the operational performance of our business, these gains or losses impact the overall profitability of our company and will increase or decrease over time, depending on market

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 6 - Segment Information - Continued

conditions and the resulting impact on the actuarial gains or losses in our pensions and other postretirement benefit plans. The exclusion of these items from segment performance does not replace net income or net loss as a measure of our overall profitability.

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

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars)	
Operating Revenue by Segment	\$2,598.9	\$2,547.9
Net Realized Investment Gain	12.4	15.2
Revenue	\$2,611.3	\$2,563.1
Operating Income by Segment	\$309.2	\$320.2
Net Realized Investment Gain	12.4	15.2
Non-operating Retirement-related Loss	(11.6	) (8.0
Income Tax	(96.1	) (103.8
Net Income	\$213.9	\$223.6

Additionally, effective January 1, 2012, we adopted an accounting standards update regarding the capitalization of costs associated with the acquisition of insurance contracts and applied the amendments retrospectively. Operating income and assets by segment have been adjusted to reflect our retrospective adoption. See Note 2 for further information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 6 - Segment Information - Continued

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

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars)	
Unum US		
Group Disability		
Group Long-term Disability	\$395.5	\$397.0
Group Short-term Disability	117.7	111.0
Group Life and Accidental Death & Dismemberment		
Group Life	293.6	273.4
Accidental Death & Dismemberment	28.3	27.1
Supplemental and Voluntary		
Individual Disability - Recently Issued	118.4	115.1
Voluntary Benefits	158.5	145.2
	1,112.0	1,068.8
Unum UK		
Group Long-term Disability	101.9	103.4
Group Life	52.7	47.6
Supplemental and Voluntary	16.1	16.1
	170.7	167.1
Colonial Life		
Accident, Sickness, and Disability	180.2	172.3
Life	51.7	46.2
Cancer and Critical Illness	64.4	61.9
	296.3	280.4
Closed Block		
Individual Disability	187.2	202.3
Long-term Care	155.2	150.6
All Other	0.5	0.3
	342.9	353.2
Total	\$1,921.9	\$1,869.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 6 - Segment Information - Continued

Selected operating statement data by segment is presented as follows:

	Unum US	Unum UK	Colonial Life	Closed Block	Corporate	Total
	(in millions of dollars)					
Three Months Ended March 31, 2012						
Premium Income	\$1,112.0	\$170.7	\$296.3	\$342.9	\$—	\$1,921.9
Net Investment Income	238.6	36.5	35.6	301.6	7.2	619.5
Other Income	31.1	0.1	0.1	25.9	0.3	57.5
Operating Revenue	\$1,381.7	\$207.3	\$332.0	\$670.4	\$7.5	\$2,598.9
Operating Income (Loss)	\$205.9	\$38.8	\$69.7	\$15.4	\$(20.6)	\$309.2
Three Months Ended March 31, 2011						
Premium Income	\$1,068.8	\$167.1	\$280.4	\$353.2	\$—	\$1,869.5
Net Investment Income	233.7	44.9	31.3	294.3	14.5	618.7
Other Income	31.0	0.1	0.1	27.5	1.0	59.7
Operating Revenue	\$1,333.5	\$212.1	\$311.8	\$675.0	\$15.5	\$2,547.9
Operating Income (Loss)	\$194.7	\$48.9	\$66.5	\$31.9	\$(21.8)	\$320.2

Assets by segment are as follows:

	March 31 2012	December 31 2011
	(in millions of dollars)	
Unum US	\$18,621.5	\$18,583.6
Unum UK	3,746.8	3,549.5
Colonial Life	3,209.3	3,167.8
Closed Block	31,306.2	31,439.5
Corporate	2,688.0	2,814.8
Total	\$59,571.8	\$59,555.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 7 - Pensions and Other Postretirement Benefits

The components of net periodic benefit cost related to the Company sponsored defined benefit pension and other postretirement benefit plans (OPEB) for our employees are as follows:

	Three Months Ended March 31					
	Pension Benefits					
	U.S. Plans		Non U.S. Plans		OPEB	
	2012	2011	2012	2011	2012	2011
	(in millions of dollars)					
Service Cost	\$12.2	\$10.6	\$1.2	\$1.2	\$0.4	\$0.5
Interest Cost	21.1	19.4	2.1	2.2	2.4	2.5
Expected Return on Plan Assets	(22.2)	(21.9)	(2.7)	(3.1)	(0.2)	(0.2)
Amortization of:						
Net Actuarial Loss	11.5	8.0	0.1	—	—	—
Prior Service Credit	(0.1)	(0.1)	—	—	(0.6)	(0.6)
Total	\$22.5	\$16.0	\$0.7	\$0.3	\$2.0	\$2.2

We have no regulatory contribution requirements for our U.S. qualified defined benefit plan in 2012. For our U.K. operation, which maintains a separate defined benefit plan, we made required contributions of \$1.1 million, or approximately £0.7 million, during the three months ended March 31, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 8 - Stockholders' Equity and Earnings Per Common Share

Net income per common share is determined as follows:

	Three Months Ended March 31	
	2012	2011
	(in millions of dollars, except share data)	
Numerator		
Net Income	\$213.9	\$223.6
Denominator (000s)		
Weighted Average Common Shares - Basic	290,429.5	312,742.3
Dilution for Assumed Exercises of Stock Options and Nonvested Stock Awards	854.5	1,590.0
Weighted Average Common Shares - Assuming Dilution	291,284.0	314,332.3
Net Income Per Common Share		
Basic	\$0.74	\$0.72
Assuming Dilution	\$0.73	\$0.71

We use the treasury stock method to account for the effect of outstanding stock options, nonvested stock awards, and performance restricted stock units on the computation of dilutive earnings per share. Under this method, these potential common shares will each have a dilutive effect, as individually measured, when the average market price of Unum Group common stock during the period exceeds the exercise price of the stock options, the grant price of the nonvested stock awards, and/or the threshold stock price of performance restricted stock units.

The outstanding stock options have exercise prices ranging from \$11.37 to \$26.29, the nonvested stock awards have grant prices ranging from \$11.37 to \$26.31, and the performance restricted stock units had a threshold stock price of \$26.00.

In computing earnings per share assuming dilution, only potential common shares that are dilutive (those that reduce earnings per share) are included. Potential common shares not included in the computation of dilutive earnings per share because their impact would be antidilutive, based on current market prices, approximated 2.2 million and 1.9 million shares of common stock for the three month periods ended March 31, 2012 and 2011, respectively.

In May 2010, our board of directors authorized the repurchase of up to \$500.0 million of Unum Group's common stock. The share repurchase program had an expiration date of May 2011. In February 2011, our board of directors authorized the repurchase of up to \$1.0 billion of Unum Group's common stock, in addition to the amount remaining to be repurchased under the \$500.0 million authorization. The \$1.0 billion share repurchase program has an expiration date of August 2012.

In February 2011, we repurchased 7.1 million shares, at a cost of \$200.0 million, using an accelerated repurchase agreement with a financial counterparty. As part of this transaction, we simultaneously entered into a forward contract indexed to the price of Unum Group common stock, which subjected the transaction to a future price adjustment. Under the terms of the repurchase agreement, we were to receive, or be required to pay, a price adjustment based on the volume weighted average price of Unum Group common stock during the term of the agreement, less a discount. Any price adjustment payable to us was to be settled in shares of Unum Group common stock. Any price adjustment

we would have been required to pay would have been settled in either cash or common stock at our option. The final price adjustment settlement occurred in March 2011, resulting in the delivery to us of 0.6 million additional shares. In total, we repurchased and retired 7.7 million shares pursuant to the accelerated repurchase agreement, which completed the \$500.0 million repurchase authorization and initiated the \$1.0 billion repurchase program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 8 - Stockholders' Equity and Earnings Per Common Share - Continued

In addition to these repurchases, for the year ended December 31, 2011, we repurchased an additional 17.7 million shares on the open market at a cost of \$419.9 million, including commissions of \$0.3 million. For the three months ended March 31, 2012, we repurchased an additional 7.5 million shares on the open market at a cost of \$175.2 million, including commissions of \$0.2 million. The dollar value of shares remaining under the \$1.0 billion repurchase program was \$349.7 million at March 31, 2012. All repurchased shares, except for the 7.7 million shares which were retired in 2011, have been classified as treasury stock and accounted for using the cost method.

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

Note 9 - Commitments and Contingent Liabilities

Contingent Liabilities

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

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

Claims Handling Matters

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 9 - Commitments and Contingent Liabilities - Continued

Broker Compensation and Quoting Process

We and certain of our subsidiaries, along with many other insurance brokers and insurers, were named as defendants in a series of putative class actions that were transferred to the U.S. District Court for the District of New Jersey for coordinated or consolidated pretrial proceedings as part of multidistrict litigation (MDL) No. 1663, *In re Insurance Brokerage Antitrust Litigation*. The plaintiffs in MDL No. 1663 were ordered to file a consolidated amended complaint which alleged, among other things, that the defendants violated federal and state antitrust laws, the Racketeer Influenced Corrupt Organizations Act (RICO), Employee Retirement Income Security Act (ERISA), and various state common law requirements by engaging in alleged bid rigging and customer allocation and by paying undisclosed compensation to insurance brokers to steer business to defendant insurers. After several amendments to the complaint, all claims against us were dismissed, and the dismissal was affirmed on appeal by the United States Court of Appeals for the Third Circuit.

The only remaining proceeding against us that is part of MDL No. 1663 is *Palm Tree Computers Systems, Inc. v. ACE USA, et al.*, which was filed in the Florida state Circuit Court on February 16, 2005. The complaint contains allegations similar to those referred to above. The case was removed to federal court and, on October 20, 2005, the case was transferred to MDL No. 1663. Plaintiffs renewed a motion to remand the case to the state court in Florida, and that motion was denied without prejudice on October 16, 2009. There have been no further proceedings in this case subsequent to that date, while the Court considers motions to dismiss filed by other defendants in MDL No. 1663.

Miscellaneous Matters

In September 2008, we received service of a complaint, in an adversary proceeding in connection with the bankruptcy case *In re Quebecor World (USA) Inc., et al.* entitled *Official Committee of Unsecured Creditors of Quebecor World (USA) Inc., et al., v. American United Life Insurance Company, et al.*, filed in the United States Bankruptcy Court for the Southern District of New York. The complaint alleges that we received preference payments relating to notes held by certain of our insurance subsidiaries and seeks to avoid and recover such payments plus interest and cost of the action. On July 27, 2011, the Bankruptcy Court ruled in our favor, granting a summary judgment motion to dismiss the case against us and the other defendants. This decision has been appealed to the United States District Court for the Southern District of New York.

In October 2010, *Denise Merrimon, Bobby S. Mowery, and all others similarly situated vs. Unum Life Insurance Company of America*, was filed in the United States District Court for the District of Maine. This is a putative class action alleging that we breached fiduciary duties owed to certain beneficiaries under certain group life insurance policies when we paid life insurance proceeds by establishing interest-bearing retained asset accounts rather than by mailing checks. Plaintiffs seek to represent a class of beneficiaries under group life insurance contracts that were part of ERISA employee welfare benefit plans and under which we paid death benefits via retained asset accounts. The plaintiffs' principal theories in the case are: (1) funds held in retained asset accounts were plan assets, and the proceeds earned by us from investing those funds belonged to the beneficiaries, and (2) payment of claims using retained asset accounts did not constitute payment under Maine's late payment statute, requiring us to pay interest on the undrawn retained asset account funds at an annual rate of 18 percent. On February 3, 2012, the District Court issued an opinion rejecting both of plaintiffs' principal theories and ordering judgment for us. At the same time, however, the District Court held that we breached a fiduciary duty to the beneficiaries by failing to pay rates comparable to the best rates available in the market for demand deposits. The District Court also certified a class of people who, during a certain period of time, were beneficiaries under certain group life insurance contracts that were part of ERISA employee welfare benefit plans and were paid death benefits using retained asset accounts. The District Court authorized the

parties to make an immediate appeal of its decision to the First Circuit Court of Appeals, and each of the parties sought leave for an early appeal on the issues raised by the District Court's rulings, but the First Circuit decided not to hear the appeal at this time. Therefore, the parties are required to wait until the proceedings in the District Court have concluded for further resolution of those issues. The First Circuit did not rule on or discuss the merits of the case.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 9 - Commitments and Contingent Liabilities - Continued

In March 2011, we received a request for information from an independent third party as part of an examination on behalf of 26 states and the District of Columbia to evaluate our compliance with the unclaimed property laws of the participating states. Industry-wide practices are currently under review concerning the identification and handling of unclaimed property by insurers, and numerous other insurers are under similar examination. We are cooperating fully with this examination.

In July 2011, the New York State Department of Financial Services issued a special request to approximately 160 insurers, including Unum Group's New York licensed insurance subsidiaries, which requires the insurers to cross-check their life insurance policies, annuity contracts, and retained asset accounts with the latest version of the Social Security Master Death Index to identify any matches. Insurers are also requested to investigate the matches to determine if death benefits are due, to locate the beneficiaries, and to make payments where appropriate. We accrued an estimated loss contingency in the fourth quarter of 2011, the amount of which was immaterial to our consolidated financial position and results of operations. We completed our review during the first quarter of 2012. The estimated loss contingency which we established in the fourth quarter of 2011 was sufficient.

It is possible other state jurisdictions may pursue similar investigations or inquiries or issue directives similar to the New York State Department of Financial Services' letter. It is possible that the audits and related activity may result in additional payments to beneficiaries, the payment of abandoned funds under state law, and/or administrative penalties. We are currently unable to estimate the reasonably possible amount of any additional payments.

In 2009, a Pennsylvania-based insurance company and its affiliates were ordered into rehabilitation, and the Pennsylvania Insurance Commissioner, who was appointed as the Rehabilitator, filed petitions for liquidation with the Commonwealth Court of Pennsylvania. Under Pennsylvania legislation, payment of covered claims and other related insurance obligations are provided, within prescribed limits, by state guaranty funds. These guaranty funds assess fees on insurance companies that sell insurance within the state, which are generally based on a company's pro rata portion of premiums written or received prior to the insolvency. Under Pennsylvania statutes, an insurer is declared insolvent only after it is placed under an order of liquidation by a court of competent jurisdiction with a finding for insolvency. If and when the formal order of liquidation is issued, we would then be subject to an assessment and would record a contingent liability net of any recoverable premium tax offsets. We do not believe our exposure to potential assessment is material to our consolidated financial position or results of operations.

Summary

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2012

Note 10 - Other

Debt

At March 31, 2012, short-term debt consisted of \$372.2 million of securities lending transactions. Regarding activity relative to our long-term debt, during the three months ended March 31, 2012, we made principal payments of \$15.0 million and \$2.5 million on our senior secured non-recourse floating rate notes issued by Northwind Holdings, LLC and Tailwind Holdings, LLC, respectively.

Income Tax

At March 31, 2012, we had a liability of \$82.5 million for unrecognized tax benefits, all of which is associated with deferred tax assets. The interest expense and penalties related to unrecognized tax expense in our consolidated statements of income was \$0.5 million and \$1.2 million for the three months ended March 31, 2012 and 2011, respectively.

During 2010, the Internal Revenue Service (IRS) completed its examination of tax years 2005 and 2006 and issued its revenue agent's report (RAR) in December 2010. In January 2011, we filed a protest to the RAR with respect to all significant adverse proposed adjustments. Although we have not yet reached a final settlement with the IRS for these years, it is reasonably possible that this appeal will be resolved in whole or in part within 12 months and that statutes of limitations may expire in multiple jurisdictions within the same period. As a result, it is reasonably possible that our liability for unrecognized tax benefits could decrease within 12 months by \$0 million to \$66.0 million. We believe sufficient provision has been made for all uncertain tax provisions and that any adjustments by tax authorities with respect to such positions would not have a material adverse effect on our financial position, liquidity, or results of operations.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Unum Group and Subsidiaries

We have reviewed the consolidated balance sheet of Unum Group and subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the three-month periods ended March 31, 2012 and 2011. These financial statements are the responsibility of the Company's management.

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

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

As discussed in Note 2 to the consolidated financial statements, Unum Group and subsidiaries changed its method of accounting for deferred acquisition costs as a result of the adoption of amendments to the FASB Accounting Standards Update No. 2010-26, Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26).

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Unum Group and subsidiaries as of December 31, 2011, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for the year then ended not presented herein and in our report dated February 24, 2012, we expressed an unqualified opinion on those consolidated financial statements. As described in Note 2, on January 1, 2012, Unum Group and Subsidiaries changed its method of accounting for deferred acquisition costs and applied the change on a retrospective basis resulting in revision of the December 31, 2011 consolidated balance sheet. We have not audited and reported on the revised balance sheet reflecting the adoption of ASU 2010-26.

/s/ ERNST & YOUNG LLP

Chattanooga, Tennessee
May 2, 2012

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

Introduction

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

We have three major business segments: Unum US, Unum UK, and Colonial Life. Our other segments are the Closed Block and the Corporate segments. These segments are discussed more fully under "Segments Results" contained in this Item 2.

As one of the leading providers of employee benefits in the U.S. and the U.K., we offer a broad portfolio of products and services to meet the diverse and rapidly changing needs of employers and their employees. The unfortunate reality is that most lower- and middle-income workers in the U.S. and the U.K. lack financial protection for themselves and their families should something unexpected occur, a need that has been made even more apparent following the recent financial crisis. Additionally, governments in the U.S. and U.K., and throughout the world, are struggling to address growing deficit problems, limiting their ability to offer some of the financial protections that they have provided in the past. As a result, we believe there is a growing need for financial protection products of the type we offer.

Specifically, we offer group, individual, and voluntary benefits, either as stand-alone products or combined with other coverages, that create comprehensive benefits solutions for employers of all sizes by helping them attract and retain a stronger workforce while protecting the incomes and lifestyles of their employees. We believe employer-sponsored benefits represent the single most effective way to provide workers with access to the information and options they need to protect their lifestyle and provide financial security. Working people and their families, particularly those at lower and middle incomes, are perhaps the most vulnerable in today's economy yet are often overlooked by many providers of financial services and products. For many of these people, employer-sponsored benefits are the primary defense against the potentially catastrophic fallout of death, illness, or injury.

We have established a corporate culture consistent with the social values our products provide. We are committed not only to meeting the needs of our customers who depend on us, but also to operating with integrity and being accountable for our actions. Our sound and consistent business practices, strong internal compliance program, and comprehensive risk management strategy enable us to operate efficiently as well as to identify and address potential areas of risk in our business. We have also applied these same values to our social responsibility efforts. Because we see important links between the obligations we have to all of our stakeholders, we place a strong emphasis on contributing to positive change in our communities.

We are an industry leader, and we believe we are well positioned in our sector with solid long-term growth prospects. Given the nature of our business, however, we are sensitive to economic and financial market movements, including interest rates, consumer confidence, and employment levels. Our business outlook, which recognizes both the challenges of the current economic environment as well as the mitigating impact of risk-reducing actions we have taken in recent years, is consistent with our risk appetite. We remain cautious of the near-term outlook for

employment levels and wages, both of which limit opportunities for premium growth, but we believe we are poised to profitably grow as employment trends improve.

This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto in Part I, Item 1 contained in this Form 10-Q and with the "Cautionary Statement Regarding Forward-Looking Statements" included below the Table of Contents, as well as the discussion, analysis, and consolidated financial statements and notes thereto in Part I, Items 1 and 1A, and Part II, Items 6, 7, 7A, and 8 of our annual report on Form 10-K for the year ended December 31, 2011.

Executive Summary

During 2012, we intend to remain focused on disciplined top-line growth in select markets and a sustainable capital generation and deployment strategy. We continue to believe that our strategy of delivering a broad set of financial protection choices to employees while also enabling employers to define their financial contribution in support of those choices should enable us to continue in a leadership position in our markets over the long term.

A discussion of our operating performance and capital management follows.

Retrospective Adoption of Accounting Standards Update

In October 2010, the Financial Accounting Standards Board (FASB) issued an update to address the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. The amendments in the update require that only incremental direct costs associated with the successful acquisition of a new or renewal insurance contract can be capitalized. All other costs are to be expensed as incurred. We adopted this update effective January 1, 2012 and applied the amendments retrospectively, adjusting all prior period operating results, balance sheets, and related metrics throughout this document. See Note 2 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information.

Operating Performance and Capital Management

For the first quarter of 2012, we reported net income of \$213.9 million, or \$0.73 per diluted common share, compared to net income of \$223.6 million, or \$0.71 per diluted common share, in the same period of 2011. After-tax operating income, which excludes realized investment gains or losses and non-operating retirement-related gains or losses, was \$213.2 million, or \$0.73 per diluted common share, in the first quarter of 2012 compared to \$219.1 million, or \$0.70 per diluted common share, in the same period of 2011. Our first quarter of 2012 net income per share and after-tax operating income per share, as compared to the same period in 2011, was aided by the repurchase of our common stock throughout 2011 and during the first quarter of 2012. Total operating revenue by segment during the first quarter of 2012 was higher than the comparable period of 2011, with increases in both premium income and net investment income. Total operating income by segment decreased in the first quarter of 2012 relative to the first quarter of 2011, with lower earnings in the Unum UK and Closed Block segments partially offset by higher earnings in Unum US and Colonial Life. See additional information in "Consolidated Operating Results," "Reconciliation of Non-GAAP Financial Measures," and "Segment Results" contained in this Item 2.

Our Unum US segment reported an increase in segment operating income of 5.8 percent in the first quarter of 2012 compared to the same period of 2011, with higher operating revenue and continued favorable expense management. Although Unum US premium income increased 4.0 percent in the first quarter of 2012 compared to the same period of 2011, the ongoing high levels of unemployment and the competitive environment continue to pressure our premium income growth. In particular, premium growth from existing customers continues to be unfavorably impacted by lower salary growth and lower growth in the number of employees covered under existing policies, although we experienced improvement relative to the first quarter of 2011. The benefit ratio for our Unum US segment for the first quarter of 2012 was 72.5 percent compared to 72.1 percent in the same period of 2011, with less favorable risk results for the group disability and group life and accidental death and dismemberment product lines partially offset by favorable risk results for the supplemental and voluntary product line. Unum US sales increased 12.1 percent in the first quarter of 2012 compared to the same period of 2011, with sales increases in nearly all of our product lines and market segments. Our group core market segment, which we define for Unum US as employee groups with fewer than 2,000 lives, reported a sales increase of 11.5 percent in the first quarter of 2012 compared to the same period of 2011. Group large case sales increased 9.4 percent, and voluntary benefits sales increased 15.7 percent in the first quarter of

2012 compared to the same period of 2011. Premium persistency was above the levels of the first quarter of 2011 for all products except short-term disability and remains high relative to historical levels.

Our Unum UK segment reported a decrease in segment operating income of 18.8 percent in the first quarter of 2012, as measured in Unum UK's local currency, relative to the same period of 2011. The decrease was driven primarily by less favorable risk results. Premium income grew 4.2 percent in the first quarter of 2012 compared to the same period of 2011, although premium growth continues to be pressured by pricing actions resulting from the competitive U.K. market. The benefit ratio for Unum UK was 72.4 percent in the first quarter of 2012 compared to 69.3 percent in the same period of 2011, with less favorable risk experience for all product lines. Unum UK sales increased 78.2 percent in the first quarter of 2012 compared to the same period of 2011, as measured in Unum UK's local currency, driven by higher group life and group long-term disability sales, led by a few large case sales in the group life market. Persistency in the first quarter of 2012 was higher than the first quarter of 2011 for group long-term disability, but was lower than the first quarter of 2011 for group life and supplemental and voluntary.

Our Colonial Life segment reported operating income growth of 4.8 percent in the first quarter of 2012 compared to the same period of 2011, driven by higher operating revenue and continued favorable expense management. Premium income grew 5.7 percent in the first quarter of 2012 compared to the same period of 2011. The benefit ratio for Colonial Life was 52.1 percent in the first quarter of 2012 compared to 51.4 percent in the same period of 2011, with increases in all product lines. Colonial Life sales increased 0.7 percent in the first quarter of 2012 compared to the same period of 2011. Commercial market sales in first quarter of 2012 were consistent with the same period of 2011, with a 1.1 percent increase in the core commercial market segment, which we define as accounts with fewer than 1,000 lives, mostly offset by an 8.5 percent decrease in the large case commercial market segment. Sales were 3.2 percent higher in the public sector market in first quarter of 2012 compared to the same period of 2011. Persistency in the first quarter of 2012 was below the level of the same period of 2011 but remains strong.

Our investment portfolio continues to perform well, with a slight growth in net investment income in the first quarter of 2012 compared to the same period of 2011. The net unrealized gain on our fixed maturity securities was \$5.5 billion at March 31, 2012, compared to \$5.8 billion at December 31, 2011.

We believe our capital and financial positions are strong. At March 31, 2012, the risk-based capital (RBC) ratio for our traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was approximately 406 percent, compared to 405 percent at December 31, 2011. Our leverage ratio, when calculated using consolidated debt to total consolidated capital, was 28.9 percent at March 31, 2012, compared to 28.7 percent at December 31, 2011. The slight increase was due to the increase in short-term debt related to securities lending agreements outstanding at March 31, 2012, partially offset by our first quarter 2012 principal payments on the debt of Northwind Holdings, LLC (Northwind Holdings) and Tailwind Holdings, LLC (Tailwind Holdings). Our leverage ratio, when calculated excluding the non-recourse debt and associated capital of Northwind Holdings and Tailwind Holdings and the short-term debt arising from securities lending agreements, was 23.4 percent at March 31, 2012, compared to 23.5 percent at December 31, 2011. The cash and marketable securities at our holding companies equaled approximately \$575 million at March 31, 2012, compared to \$756 million at December 31, 2011, reflecting our first quarter of 2012 repurchase of 7.5 million of our common shares on the open market at a cost of \$175.2 million.

Further discussion is included in "Consolidated Operating Results," "Segment Results," "Investments," and "Liquidity and Capital Resources" contained in this Item 2.

Critical Accounting Estimates

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

The accounting estimates deemed to be most critical to our financial position and results of operations are those related to reserves for policy and contract benefits, deferred acquisition costs, valuation of investments, pension and postretirement benefit plans, income taxes, and contingent liabilities. There have been no significant changes in our critical accounting estimates during the first three months of 2012 other than changes made to our capitalization policies for deferred acquisition costs, in accordance with our adoption of the accounting standards update as disclosed in Note 2 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

For additional information, refer to our significant accounting policies in Note 1 of the "Notes to Consolidated Financial Statements" in Part II, Item 8 and "Critical Accounting Estimates in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2011.

Accounting Developments

For information on new accounting standards and the impact, if any, on our financial position or results of operations, see Note 2 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

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Consolidated Operating Results
(in millions of dollars)

	Three Months Ended March 31		
	2012	% Change	2011
Revenue			
Premium Income	\$ 1,921.9	2.8	% \$ 1,869.5
Net Investment Income	619.5	0.1	618.7
Net Realized Investment Gain	12.4	(18.4)	) 15.2
Other Income	57.5	(3.7)	) 59.7
Total Revenue	2,611.3	1.9	2,563.1
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	1,662.9	4.4	1,593.0
Commissions	232.3	3.6	224.3
Interest and Debt Expense	35.5	(6.3)	) 37.9
Deferral of Acquisition Costs	(117.4)	) 4.6	(112.2)
Amortization of Deferred Acquisition Costs	99.4	4.6	95.0
Compensation Expense	206.9	2.5	201.9
Other Expenses	181.7	(7.2)	) 195.8
Total Benefits and Expenses	2,301.3	2.9	2,235.7
Income Before Income Tax	310.0	(5.3)	) 327.4
Income Tax	96.1	(7.4)	) 103.8
Net Income	\$ 213.9	(4.3)	) \$ 223.6

The comparability of our financial results between years is affected by the fluctuation in the British pound sterling to dollar exchange rate. The functional currency of our U.K. operations is the British pound sterling. In periods when the pound weakens, translating pounds into dollars decreases current period results relative to the prior period. In periods when the pound strengthens, translating pounds into dollars increases current period results in relation to the prior period. Our weighted average pound/dollar exchange rate was 1.571 and 1.607, for the three months ended March 31, 2012 and 2011, respectively. If the first quarter of 2012 results for our U.K. operations had been translated at the higher exchange rate of the first quarter of 2011, our operating revenue and operating income by segment in the first quarter of 2012 would have been higher by approximately \$4.6 million and \$0.8 million, respectively. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting item and not a reflection of operations or profitability in the U.K.

Consolidated premium income in the first quarter of 2012 compared to the same period of 2011 includes premium growth for each of our three major business segments. For our closed block segment, in total, premium income declined as expected, although our long-term care closed line of business experienced premium growth relative to the first quarter of 2011 due to premium persistency and group long-term care sales which occurred during 2011 and the first quarter of 2012.

Net investment income was slightly higher in the first quarter of 2012 relative to the same period of 2011 due primarily to continued growth in the level of invested assets and an increase in income from bond call premiums and private equity partnerships, mostly offset by lower income on index-linked bonds which support the claim reserves associated with certain of our Unum UK group policies that provide for inflation-linked increases in benefits as well as an increase in the amortization of the principal amount invested in our tax-credit partnerships.

We recognized in earnings net realized investment gains of \$12.4 million and \$15.2 million in the first quarter of 2012 and 2011, respectively. Included in the net realized investment gain for the first quarter of 2011 was an other-than-temporary impairment loss on fixed maturity securities of \$2.3 million, all of which was recognized in earnings.

Also recognized in earnings through realized investment gains and losses was the change in the fair value of an embedded derivative in a modified coinsurance arrangement. Changes in the fair value of this embedded derivative resulted in realized gains of \$12.3 million and \$14.1 million in the first quarter of 2012 and 2011, respectively. Gains and losses on this embedded derivative result primarily from changes in credit spreads in the overall investment market.

The benefit ratio was 86.5 percent in the first quarter of 2012 compared to 85.2 percent in the same period of 2011, with unfavorable year over year risk results in each of our segments. Further discussion of our line of business risk results and claims management performance for each of our segments is included in "Segment Results" as follows.

Interest and debt expense in the first quarter of 2012 was lower than the same period of 2011 due primarily to the maturity of \$225.1 million of 7.625% senior notes in March 2011 and continuing principal payments on Tailwind Holdings and Northwind Holdings debt, partially offset by a higher rate of interest on \$350.0 million of debt which we converted into floating rate debt through the use of an interest rate swap.

The deferral of acquisition costs increased in the first quarter of 2012 compared to the same period of 2011, with continued growth in certain of our product lines and the associated increase in deferrable expenses more than offsetting the lower level of deferrable costs in product lines with lower growth.

The amortization of acquisition costs in the first quarter of 2012 was higher than the same period of 2011 due primarily to higher amortization in our Unum US supplemental and voluntary product line driven by unfavorable premium persistency relative to assumptions for certain issue years within certain of our product lines. Amortization in Colonial Life was also higher in the first quarter of 2012 compared to the prior year due to continued growth in the level of the deferred asset.

Other expenses were lower in the first quarter of 2012 compared to the same period of 2011 due to our continued focus on operating effectiveness and expense management.

Reconciliation of Non-GAAP Financial Measures

We analyze our performance using non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. We believe operating income or loss which excludes the specified items listed in our reconciliation is a better performance measure and a better indicator of the profitability and underlying trends in our business. Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains or losses. A long-term focus is necessary to maintain profitability over the life of the business, although we may experience realized investment losses which will affect future earnings levels since our underlying business is long-term in nature and we need to earn the interest rates assumed in calculating our liabilities. Certain components of the net periodic benefit cost for our pensions and other postretirement benefit plans, namely the amortization of prior period actuarial gains or losses, are primarily driven by market performance and are not indicative of the operational results of our businesses. We believe that excluding the amortization of prior period gains or losses from operating income by segment provides investors with additional information for comparison and analysis of our operating results. However, although we manage our non-operating retirement-related gains or losses separately from the operational performance of our business, these gains or losses impact the overall profitability of our company and will increase or decrease over time, depending on market conditions and the resulting impact on the actuarial gains or losses in our pensions and other postretirement benefit plans. We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals, but this exclusion is not an indication that similar items may not recur and does not replace net income or net loss as a measure of our overall profitability. The non-GAAP financial measures of "operating revenue," "operating income" or "operating loss," and "after-tax operating income" differ from revenue, income (loss) before income tax, and net income as presented in our consolidated operating results and in income statements prepared in accordance with

GAAP due to the exclusion of before-tax realized investment gains or losses and non-operating retirement-related gains or losses.

A reconciliation of operating revenue by segment to revenue, operating income by segment to net income, and after-tax operating income to net income is as follows:

(in millions of dollars)

	Three Months Ended March 31	
	2012	2011
Operating Revenue by Segment	\$2,598.9	\$2,547.9
Net Realized Investment Gain	12.4	15.2
Revenue	\$2,611.3	\$2,563.1
Operating Income by Segment	\$309.2	\$320.2
Net Realized Investment Gain	12.4	15.2
Non-operating Retirement-related Loss	(11.6	) (8.0
Income Tax	(96.1	) (103.8
Net Income	\$213.9	\$223.6

	Three Months Ended March 31			
	2012		2011	
	(in millions)	per share *	(in millions)	per share *
After-tax Operating Income	\$213.2	\$0.73	\$219.1	\$0.70
Non-operating Retirement-related Loss	(11.6	) (0.04	) (8.0	) (0.03
Income Tax on Non-operating Retirement-related Loss	4.0	0.01	2.8	0.01
Net Realized Investment Gain	12.4	0.04	15.2	0.05
Income Tax on Net Realized Investment Gain	(4.1	) (0.01	) (5.5	) (0.02
Net Income	\$213.9	\$0.73	\$223.6	\$0.71

* Assuming Dilution

Consolidated Sales Results

(in millions of dollars)

	Three Months Ended March 31		
	2012	% Change	2011
Unum US			
Fully Insured Products	\$ 194.9	12.7	% \$ 173.0
Administrative Services Only (ASO) Products	0.6	(57.1)	1.4
Total Unum US	195.5	12.1	174.4
Unum UK	30.8	75.0	17.6
Colonial Life	71.1	0.7	70.6
Closed Block	9.1	28.2	7.1
Consolidated	\$ 306.5	13.6	\$ 269.7

Sales results shown in the preceding chart generally represent the annualized premium or annualized fee income on new sales which we expect to receive and report as premium income or fee income during the next 12 months following or beginning in the initial quarter in which the sale is reported, depending on the effective date of the new sale. Sales do not correspond to premium income or fee income reported as revenue in accordance with GAAP. This is because new annualized sales premiums reflect current sales performance and what we expect to recognize as premium or fee income over a 12 month period, while premium income and fee income reported in our financial statements are reported on an "as earned" basis rather than an annualized basis and also include renewals and persistency of in-force policies written in prior years as well as current new sales.

Premiums for fully insured products are reported as premium income. Fees for ASO and family medical leave products are included in other income. Sales, persistency of the existing block of business, and the effectiveness of a renewal program are indicators of growth in premium and fee income. Trends in new sales, as well as existing market share, also indicate the potential for growth in our respective markets and the level of market acceptance of price changes and new product offerings. Sales results may fluctuate significantly due to case size and timing of sales submissions.

See "Segment Results" as follows for a discussion of sales by segment.

Segment Results

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

Effective January 1, 2012, we adopted an accounting standards update regarding the capitalization of costs associated with the acquisition of insurance contracts and applied the amendments retrospectively. Operating income by segment has been adjusted to reflect our retrospective adoption. See Note 2 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion.

In the following segment financial data, "operating revenue" excludes net realized investment gains or losses. "Operating income" or "operating loss" excludes net realized investment gains or losses, non-operating retirement-related gains or losses, and income tax. These are considered non-GAAP financial measures. These non-GAAP financial measures of "operating revenue" and "operating income" or "operating loss" differ from revenue and income before income tax as presented in our consolidated statements of income prepared in accordance with GAAP due to the exclusion of before-tax realized investment gains or losses and non-operating retirement-related

gains or losses. We previously allocated the amortization of prior period actuarial gains or losses, the component of the net periodic benefit costs for our pensions and other postretirement benefit plans which we consider to be non-operating, to our Corporate segment. During the first quarter of 2012, we determined that we would modify our segment reporting. Effective January 1, 2012, the amortization of prior period actuarial gains or losses is no longer included in operating income or operating loss by segment. Prior period segment results for our Corporate segment have been adjusted to conform to current year reporting. See "Reconciliation of Non-GAAP Financial Measures" contained in this Item 2.

Financial information for each of our reporting segments is as follows.

Unum US Segment

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business, which are comprised of individual disability - recently issued insurance and voluntary benefits products.

Unum US Operating Results

Shown below are financial results for the Unum US segment. In the sections following, financial results and key ratios are also presented for the major lines of business within the segment.

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2012	% Change	2011	
Operating Revenue				
Premium Income	\$1,112.0	4.0	%	\$1,068.8
Net Investment Income	238.6	2.1		233.7
Other Income	31.1	0.3		31.0
Total	1,381.7	3.6		1,333.5
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	806.2	4.6		770.4
Commissions	129.3	5.1		123.0
Interest and Debt Expense	0.3	—		0.3
Deferral of Acquisition Costs	(61.9)	) 9.4		(56.6)
Amortization of Deferred Acquisition Costs	53.6	8.1		49.6
Other Expenses	248.3	(1.5)	)	252.1
Total	1,175.8	3.2		1,138.8
Operating Income Before Income Tax and Net Realized Investment Gains and Losses	\$205.9	5.8		\$194.7
Operating Ratios (% of Premium Income):				
Benefit Ratio	72.5	%		72.1 %
Other Expense Ratio	22.3	%		23.6 %
Before-tax Operating Income Ratio	18.5	%		18.2 %

Unum US Group Disability Operating Results

Shown below are financial results and key performance indicators for Unum US group disability.
(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2012	% Change	2011	
Operating Revenue				
Premium Income				
Group Long-term Disability	\$395.5	(0.4)%	\$397.0	
Group Short-term Disability	117.7	6.0	111.0	
Total Premium Income	513.2	1.0	508.0	
Net Investment Income	147.4	(0.2)	147.7	
Other Income	23.5	5.9	22.2	
Total	684.1	0.9	677.9	
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	435.7	2.2	426.3	
Commissions	40.4	(1.0)	40.8	
Interest and Debt Expense	0.3	—	0.3	
Deferral of Acquisition Costs	(6.1)	13.0	(5.4)	
Amortization of Deferred Acquisition Costs	4.2	(16.0)	5.0	
Other Expenses	134.9	(1.6)	137.1	
Total	609.4	0.9	604.1	
Operating Income Before Income Tax and Net Realized Investment Gains and Losses	\$74.7	1.2	\$73.8	
Operating Ratios (% of Premium Income):				
Benefit Ratio	84.9	%	83.9	%
Other Expense Ratio	26.3	%	27.0	%
Before-tax Operating Income Ratio	14.6	%	14.5	%
Premium Persistency:				
Group Long-term Disability	91.7	%	89.7	%
Group Short-term Disability	90.5	%	90.7	%
Case Persistency:				
Group Long-term Disability	87.8	%	89.2	%
Group Short-term Disability	86.6	%	87.7	%

Group disability premium income increased slightly in the first quarter of 2012 compared to the same period of 2011 driven primarily by prior period sales growth in group short-term disability as well as continued strong persistency in both long-term and short-term disability. Net investment income was slightly lower in the first quarter of 2012 compared to the same period of 2011 due to a decrease in the level of assets supporting this line of business, partially offset by an increase in the level of prepayment income on mortgage-backed securities and an increase in bond call premiums. Other income includes ASO fees of \$14.7 million and \$14.5 million, and fees from fee-based family medical leave products of \$5.9 million and \$4.9 million, in the first quarters of 2012 and 2011, respectively.

The benefit ratio was higher in the first quarter of 2012 compared to the same period of 2011 due to unfavorable risk results in group short-term disability resulting from increases in claim incidence rates and average weekly

indemnities. Group long-term disability risk results were slightly favorable in the first quarter of 2012 due to higher claim recoveries, offset partially by an increase in submitted claim incidence relative to the first quarter of 2011.

The deferral of acquisition costs in the first quarter of 2012 was higher than the same period of 2011 due to a higher level of sales. The amortization of acquisition costs in the first quarter of 2012 was lower than the same period of 2011 due to a decrease in amortization related to internal replacement transactions. The other expense ratio was lower in the first quarter of 2012 relative to the same period of 2011 due primarily to higher premium income and our continued focus on operating effectiveness and expense management.

Unum US Group Life and Accidental Death and Dismemberment Operating Results

Shown below are financial results and key performance indicators for Unum US group life and accidental death and dismemberment.

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2012	% Change	2011	
Operating Revenue				
Premium Income				
Group Life	\$293.6	7.4	% \$273.4	
Accidental Death & Dismemberment	28.3	4.4	27.1	
Total Premium Income	321.9	7.1	300.5	
Net Investment Income	34.9	2.0	34.2	
Other Income	0.5	—	0.5	
Total	357.3	6.6	335.2	
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	231.7	10.2	210.2	
Commissions	26.2	11.5	23.5	
Deferral of Acquisition Costs	(5.1)	) 8.5	(4.7))
Amortization of Deferred Acquisition Costs	3.4	(5.6)	) 3.6	
Other Expenses	48.7	(4.5)	) 51.0	
Total	304.9	7.5	283.6	
Operating Income Before Income Tax and Net Realized Investment Gains and Losses	\$52.4	1.6	\$51.6	
Operating Ratios (% of Premium Income):				
Benefit Ratio	72.0	%	70.0	%
Other Expense Ratio	15.1	%	17.0	%
Before-tax Operating Income Ratio	16.3	%	17.2	%
Premium Persistency:				
Group Life	91.3	%	86.4	%
Accidental Death & Dismemberment	91.0	%	86.1	%
Case Persistency:				
Group Life	87.3	%	88.3	%
Accidental Death & Dismemberment	87.4	%	88.5	%

Premium income for group life and accidental death and dismemberment was higher in the first quarter of 2012 compared to the same period of 2011 due primarily to higher sales and premium persistency. Case persistency in the first quarter of 2012 was slightly lower than the same period of 2011. Net investment income was higher in the first quarter of 2012 compared to the same period of 2011 due primarily to an increase in bond call premiums and an increase in the level of prepayment income on mortgage-backed securities.

The benefit ratio was higher in the first quarter of 2012 compared to the same period of 2011 due to a higher incidence rate for group life. Commissions and the deferral of acquisition costs were higher in the first quarter of 2012 compared to the same period of 2011 due primarily to the higher level of sales. The amortization of acquisition costs was slightly lower in the first quarter of 2012 than in the same period of 2011 due primarily to a decrease in amortization related to

internal replacement transactions. The other expense ratio was lower in the first quarter of 2012 relative to the same period of 2011 due primarily to higher premium income and our continued focus on operating effectiveness and expense management.

Unum US Supplemental and Voluntary Operating Results

Shown below are financial results and key performance indicators for Unum US supplemental and voluntary product lines.

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2012	% Change	2011	
Operating Revenue				
Premium Income				
Individual Disability - Recently Issued	\$118.4	2.9	% \$115.1	
Voluntary Benefits	158.5	9.2	145.2	
Total Premium Income	276.9	6.4	260.3	
Net Investment Income	56.3	8.7	51.8	
Other Income	7.1	(14.5)	) 8.3	
Total	340.3	6.2	320.4	
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	138.8	3.7	133.9	
Commissions	62.7	6.8	58.7	
Deferral of Acquisition Costs	(50.7)	) 9.0	(46.5))
Amortization of Deferred Acquisition Costs	46.0	12.2	41.0	
Other Expenses	64.7	1.1	64.0	
Total	261.5	4.1	251.1	
Operating Income Before Income Tax and Net Realized Investment Gains and Losses	\$78.8	13.7	\$69.3	
Operating Ratios (% of Premium Income):				
Benefit Ratios:				
Individual Disability - Recently Issued	51.6	%	52.2	%
Voluntary Benefits	49.0	%	50.8	%
Other Expense Ratio	23.4	%	24.6	%
Before-tax Operating Income Ratio	28.5	%	26.6	%
Interest Adjusted Loss Ratio:				
Individual Disability - Recently Issued	30.3	%	30.9	%
Premium Persistency:				
Individual Disability - Recently Issued	90.3	%	89.8	%
Voluntary Benefits	79.9	%	79.5	%

Premium income was higher in the first quarter of 2012 compared to the same period of 2011 due primarily to growth in our voluntary benefits product line. Premium persistency for both the individual disability - recently issued and voluntary benefits product lines increased. Net investment income was higher in the first quarter of 2012 compared to the same period of 2011 due primarily to an increase in the level of assets supporting these lines of business, an increase in the level of prepayment income on mortgage-backed securities, and an increase in bond call premiums.

The interest adjusted loss ratio for the individual disability - recently issued line of business was lower in the first quarter of 2012 compared to the same period of 2011 due to a lower paid claim incidence rate and a higher rate of claim recoveries. The benefit ratio for voluntary benefits was lower in the first quarter of 2012 compared to the same

period of 2011 due primarily to a lower paid claim incidence rate for voluntary life, partially offset by a higher paid claim incidence rate for voluntary disability.

Commissions and the deferral of acquisition costs were higher in the first quarter of 2012 compared to the same period of 2011 due to higher sales. The amortization of deferred acquisition costs was higher in the first quarter of 2012 compared to the same period of 2011 due to unfavorable premium persistency relative to assumptions for certain issue years within certain of our product lines. The other expense ratio was lower in the first quarter of 2012 relative to the same period of 2011 due primarily to higher premium income and our continued focus on operating effectiveness and expense management.

Unum US Sales
(in millions of dollars)

	Three Months Ended March 31		
	2012	% Change	2011
Sales by Product			
Fully Insured Products			
Group Disability, Group Life, and AD&D			
Group Long-term Disability	\$35.8	21.4	% \$29.5
Group Short-term Disability	13.4	(4.3)	) 14.0
Group Life	33.0	7.1	30.8
AD&D	2.9	16.0	2.5
Subtotal	85.1	10.8	76.8
Supplemental and Voluntary			
Individual Disability - Recently Issued	14.9	4.9	14.2
Voluntary Benefits	94.9	15.7	82.0
Subtotal	109.8	14.1	96.2
Total Fully Insured Products	194.9	12.7	173.0
ASO Products	0.6	(57.1)	) 1.4
Total Sales	\$195.5	12.1	\$174.4
Sales by Market Sector			
Group Disability, Group Life, and AD&D			
Core Market (< 2,000 lives)	\$58.4	11.5	% \$52.4
Large Case Market	26.7	9.4	24.4
Subtotal	85.1	10.8	76.8
Supplemental and Voluntary	109.8	14.1	96.2
Total Fully Insured Products	194.9	12.7	173.0
ASO Products	0.6	(57.1)	) 1.4
Total Sales	\$195.5	12.1	\$174.4

Unum US sales increased in the first quarter of 2012 compared to the same period of 2011, with growth in each of our major market segments and fully insured product lines, other than group short-term disability. Sales in our group core market segment were 11.5 percent higher in the first quarter of 2012 compared to the same period of 2011, with increases in each of the product lines within this market segment. The number of new accounts added in our group core market segment during 2012 was 6.3 percent higher than the number of new accounts added during the same period of 2011.

Sales in our group large case market segment were 9.4 percent higher in the first quarter of 2012 compared to the same period of 2011 due to higher group long-term disability sales, partially offset by lower group short-term disability and group life and accidental death and dismemberment sales. Our sales mix of group products in the first

quarter of 2012 was approximately 69 percent core market and 31 percent large case market.

Sales of voluntary benefits were 15.7 percent higher in the first quarter of 2012 compared to the same period of 2011, with higher sales from both new and existing customers, particularly in the large case market. The number of new accounts added in the voluntary benefits product line was 1.7 percent lower in the first quarter of 2012 than the number of new accounts added during the same period of 2011.

Sales in our individual disability - recently issued line of business, which are primarily concentrated in the multi-life market, were 4.9 percent higher in the first quarter of 2012 compared to the same period of 2011. The increase was primarily due to increased sales to existing customers in the small and mid-size segments.

We believe that the group core market and voluntary benefits market, which combined together are approximately 78 percent of our Unum US sales for the first quarter of 2012 and grew approximately 14.1 percent relative to the first quarter of 2011, represent significant growth opportunities. We will also seek disciplined and opportunistic growth, generally at the market growth rate, in the group large case and individual disability markets. While in the short-term we expect economic trends to continue to pressure our sales growth, we believe we are well positioned for economic recovery.

Segment Outlook

Although we experienced premium and sales growth during the first quarter of 2012, we believe that premium and sales growth, particularly growth in existing customer accounts, will continue to be pressured by the ongoing high levels of unemployment and the competitive environment. Opportunities for further premium and sales growth are expected to re-emerge as the economy improves and employment growth accelerates. We expect some volatility in net investment income to continue as a result of fluctuations in bond calls and other types of miscellaneous net investment income. We intend to continue to manage our expense levels relative to premium levels through operating effectiveness and performance management.

Certain risks and uncertainties are inherent in the disability insurance business. Components of claims experience, such as incidence and recovery rates, may be worse than we expect. Disability claim incidence and claim recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence. Within the group disability market, pricing and renewal actions can be taken to react to higher claim rates, but these actions take time to implement, and there is a risk that the market will not sustain increased prices. In addition, changes in economic and external conditions may not manifest themselves in claims experience for an extended period of time. The current economic conditions may lead to a higher rate of claim incidence, lower levels of claim recoveries, or lower claim discount rates. We have previously taken steps to improve our risk profile, including reducing our exposure to volatile business segments through diversification by market size, product segment, and industry segment. We believe our claims management organization is positioned for stable and sustainable performance levels. We are uncertain as to whether the higher levels of claim incidence experienced in the first quarter of 2012 and during 2011 were due to the normal volatility that occurs in our group disability business or were related to the economy. We began initiating price increases for our group disability products during the first quarter 2012 as a result of the higher levels of claim incidence and the continued low interest rate environment. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

We believe our Unum US growth strategy is sound and that we will be able to leverage the capabilities, products, and relationships and reputation we have built to deliver growth as the benefits market stabilizes. We continue to see future growth opportunity based on employee choice, defined employer funding, superior service, and effective communication. We intend to maintain our discipline and will continue (i) directing the majority of our efforts on capturing opportunities emerging in our core group and voluntary markets to grow them at above-market rates, (ii) focusing on margins in large case group insurance, while leveraging core market, voluntary, and other shorter-term investments to grow at market rates, and (iii) seeking opportunities to improve margins and return in our supplemental lines of business. We believe we are well positioned strategically in our markets and that opportunities for continued disciplined growth exist in our group core market segment and in the voluntary markets. While the current economic conditions have impacted our ability to grow premium income and will continue to do so until we return to a more normal economic environment, we expect to continue to achieve marginal year over year growth in our premium income during the remainder of 2012. We anticipate that the benefit ratio for our group disability product line for 2012 will generally be consistent with the level of 2011, depending on claim incidence rates and claim discount rates. We think future profit margin improvement is achievable, driven primarily by our continued product mix shift and expense efficiencies as our claims performance gradually flattens.

Unum UK Segment

The Unum UK segment includes insurance for group long-term disability, group life, and supplemental and voluntary lines of business. The supplemental and voluntary lines of business are comprised of individual disability, critical illness, and voluntary benefits products. Unum UK's products are sold primarily in the United Kingdom through field sales personnel and independent brokers and consultants.

Operating Results

Shown below are financial results and key performance indicators for the Unum UK segment.

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2012	% Change	2011	
Operating Revenue				
Premium Income				
Group Long-term Disability	\$101.9	(1.5)%	\$103.4	
Group Life	52.7	10.7	47.6	
Supplemental and Voluntary	16.1	—	16.1	
Total Premium Income	170.7	2.2	167.1	
Net Investment Income	36.5	(18.7)	44.9	
Other Income	0.1	—	0.1	
Total	207.3	(2.3)	212.1	
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	123.6	6.7	115.8	
Commissions	10.6	(2.8)	10.9	
Deferral of Acquisition Costs	(3.6)	2.9	(3.5)	
Amortization of Deferred Acquisition Costs	3.9	2.6	3.8	
Other Expenses	34.0	(6.1)	36.2	
Total	168.5	3.2	163.2	
Operating Income	\$38.8	(20.7)	\$48.9	
Operating Ratios (% of Premium Income):				
Benefit Ratio	72.4	%	69.3	%
Other Expense Ratio	19.9	%	21.7	%
Before-tax Operating Income Ratio	22.7	%	29.3	%
Premium Persistency:				
Group Long-term Disability	86.0	%	83.5	%
Group Life	84.7	%	85.7	%
Supplemental and Voluntary	86.7	%	89.3	%

Foreign Currency Translation

The functional currency of Unum UK is the British pound sterling. Unum UK's premiums, net investment income, claims, and expenses are received or paid in pounds, and we hold pound-denominated assets to support Unum UK's pound-denominated policy reserves and liabilities. We translate Unum UK's pound-denominated financial statement items into dollars for our consolidated financial reporting. We translate income statement items using an average exchange rate for the reporting period, and we translate balance sheet items using the exchange rate at the end of the period. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income in our consolidated balance sheets.

Fluctuations in the pound to dollar exchange rate have an effect on Unum UK's reported financial results and our consolidated financial results. In periods when the pound strengthens relative to the preceding period, translating pounds into dollars increases current period results relative to the prior period. In periods when the pound weakens relative to the preceding period, as occurred in the first quarter of 2012 compared to the same period of 2011, translating into dollars decreases current period results relative to the prior periods.

(in millions of pounds, except ratios)

	Three Months Ended March 31		
	2012	% Change	2011
Operating Revenue			
Premium Income			
Group Long-term Disability	£64.8	0.5	% £64.5
Group Life	33.5	12.8	29.7
Supplemental and Voluntary	10.3	3.0	10.0
Total Premium Income	108.6	4.2	104.2
Net Investment Income	23.3	(16.8)	28.0
Other Income	—	(100.0)	0.1
Total	131.9	(0.3)	132.3
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	78.6	8.7	72.3
Commissions	6.7	(1.5)	6.8
Deferral of Acquisition Costs	(2.3)	4.5	(2.2)
Amortization of Deferred Acquisition Costs	2.5	4.2	2.4
Other Expenses	21.7	(4.0)	22.6
Total	107.2	5.2	101.9
Operating Income	£24.7	(18.8)	£30.4
Weighted Average Pound/Dollar Exchange Rate	1.571		1.607

Premium income was higher the first quarter of 2012 compared to the same period of 2011, although premium growth continues to be pressured by pricing actions resulting from the competitive U.K. market. Group life premium income was higher in the first quarter of 2012 compared to the same period of 2011 due to the increase in the inforce block of business resulting from 2011 sales. Group long-term disability and supplemental and voluntary premium income were generally consistent with the prior year first quarter. Net investment income was lower in first quarter of 2012 compared to the same period of 2011 due primarily to lower income on index-linked bonds and lower income from bond call premiums, partially offset by an increase in the level of assets supporting this line of business. These index-linked bonds support the claim reserves associated with certain of our group policies that provide for

inflation-linked increases in benefits.

The benefit ratio was higher in the first quarter of 2012 compared to the same period of 2011 due primarily to unfavorable risk experience in group life, which was driven by a higher average claim size and higher claim volumes. The group long-term disability benefit ratio was slightly unfavorable in the first quarter of 2012 compared to the same period of 2011 driven by a lower average size of claims declined.

Commissions and the deferral and amortization of acquisition costs were generally consistent in the first quarter of 2012 compared to the same period of 2011. Other expenses were slightly lower than the prior year first quarter due to expense management initiatives, and the other expense ratio benefited from higher premium income.

Sales

Shown below are sales results in dollars and in pounds for the Unum UK segment.

(in millions)

	Three Months Ended March 31		
	2012	% Change	2011
Group Long-term Disability	\$11.2	36.6	% \$8.2
Group Life	18.0	164.7	6.8
Supplemental and Voluntary	1.6	(38.5)	) 2.6
Total Sales	\$30.8	75.0	\$17.6
Group Long-term Disability	£7.1	39.2	% £5.1
Group Life	11.5	167.4	4.3
Supplemental and Voluntary	1.0	(37.5)	) 1.6
Total Sales	£19.6	78.2	£11.0

Sales in Unum UK's group long-term disability and group life product lines were higher in the first quarter of 2012 compared to the same period of 2011 due to higher sales in both the core market, which we define for Unum UK as employee groups with fewer than 500 lives, and in the large case market. Group life sales for the first quarter of 2012 increased due to four large cases with more than 2,000 employees as well as strong core sales throughout the quarter. Sales to existing customers were marginally higher in the first quarter of 2012 compared to the same period of 2011. We do not expect sales to continue at the elevated level of our first quarter of 2012 for our group life product line.

Segment Outlook

The challenging economic and competitive pricing environment in the U.K. continue to negatively impact Unum UK's premium growth, and we expect this may continue in the near term if current economic and competitive conditions in the U.K. persist. Our sales growth may also continue to be impacted by a prolonged competitive pricing environment in the U.K. The current economic conditions may lead to a higher rate of claim incidence, lower levels of claim recoveries, or lower claim discount rates. We will continue to initiate price increases for our group disability and group life products throughout 2012 to mitigate the impact of the current economic conditions. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly. Continued fluctuations in the U.S. dollar relative to the British pound sterling impact our reported operating results.

Our current growth strategy focuses on generating organic growth and expanding our role as the leading provider of group disability insurance in the U.K. Our strategy for future growth combines optimizing the performance of our existing business while developing new market opportunities. We intend to optimize performance of the existing business by (i) increasing underwriting and pricing discipline, (ii) improving our claims management processes, and (iii) expanding our broker market capabilities and sales effectiveness. We intend to develop new market opportunities by raising awareness of the need for income protection, including seeking to increase coverage of currently insured groups to include a greater percentage of the workforce, and by offering a suite of employer and employee paid workplace solutions using integrated products with simpler, defined choices and flexible funding options through a streamlined and efficient platform with online capabilities matched to broker and employer needs.

In the current competitive pricing market and economic environment, we continue to have a cautious outlook for premium growth. We anticipate returning to more normalized levels of premium growth through stable persistency and price increases, as well as increased sales to existing and new customers which we expect to occur commensurate with the timing of the U.K. economic recovery. Although our benefit ratio for the first quarter of 2012 was unfavorable compared to the first quarter of 2011, we expect our benefit ratio for the full year of 2012 to stabilize and

be generally consistent with 2011. We also expect our profit margins for the full year 2012 to continue at a favorable level, consistent with 2011, despite the decline in profit margin in the first quarter of 2012.

Colonial Life Segment

The Colonial Life segment includes insurance for accident, sickness, and disability products, life products, and cancer and critical illness products issued primarily by Colonial Life & Accident Insurance Company and marketed to employees at the workplace through an independent contractor agency sales force and brokers.

Operating Results

Shown below are financial results and key performance indicators for the Colonial Life segment.

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2012	% Change	2011	
Operating Revenue				
Premium Income				
Accident, Sickness, and Disability	\$180.2	4.6	%	\$172.3
Life	51.7	11.9		46.2
Cancer and Critical Illness	64.4	4.0		61.9
Total Premium Income	296.3	5.7		280.4
Net Investment Income	35.6	13.7		31.3
Other Income	0.1	—		0.1
Total	332.0	6.5		311.8
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	154.4	7.1		144.1
Commissions	63.9	4.4		61.2
Deferral of Acquisition Costs	(51.9)	) 1.2	(51.3)
Amortization of Deferred Acquisition Costs	41.9	10.0		38.1
Other Expenses	54.0	1.5		53.2
Total	262.3	6.9		245.3
Operating Income Before Income Tax and Net Realized Investment Gains and Losses	\$69.7	4.8		\$66.5
Operating Ratios (% of Premium Income):				
Benefit Ratio	52.1	%	51.4	%
Other Expense Ratio	18.2	%	19.0	%
Before-tax Operating Income Ratio	23.5	%	23.7	%
Persistency:				
Accident, Sickness, and Disability	74.1	%	75.9	%
Life	84.9	%	86.0	%
Cancer and Critical Illness	83.6	%	84.9	%

Premium income was higher in the first quarter of 2012 compared to the same period of 2011 due primarily to prior period sales growth and stable persistency, although the premium growth rate continues to be negatively impacted by economic conditions that we believe affect the buying patterns of employees. Net investment income was higher in first quarter of 2012 compared to the same period of 2011 due primarily to growth in the level of assets supporting this line of business, higher bond call premiums, and an increase in income from private equity partnership investments.

The benefit ratio was higher in first quarter of 2012 compared to the same period of 2011 for all of our product lines. The benefit ratio in the accident, sickness, and disability line of business increased slightly due to a higher level of

incurred claims. The increase in the life benefit ratio was driven by unfavorable mortality rates in our traditional product line which can exhibit volatility from period to period. The cancer and critical illness benefit ratio increased slightly due to several large cancer claims and higher wellness benefit utilization during the first quarter of 2012.

Commissions and the deferral of acquisition costs were both higher in first quarter of 2012 compared to the same period of 2011 due primarily to an increase in costs related to growth in new business premium. The amortization of deferred acquisition costs continues to increase as the level of the deferred asset grows. The other expense ratio was lower in first quarter of 2012 compared to the same period of 2011 due primarily to higher premium income and a continued focus on expense management.

Sales
(in millions of dollars)

	Three Months Ended March 31		
	2012	% Change	2011
Accident, Sickness, and Disability	\$46.5	(1.5)%	\$47.2
Life	13.8	3.8	13.3
Cancer and Critical Illness	10.8	6.9	10.1
Total Sales	\$71.1	0.7	\$70.6

Colonial Life's sales were slightly higher in first quarter of 2012 compared to the same period of 2011, with an 8.9 percent increase in existing account sales mostly offset by a 14.7 percent decrease in new account sales. Commercial market sales in first quarter of 2012 were consistent with the same period of 2011, with a 1.1 percent increase in the core commercial market segment, which we define as accounts with fewer than 1,000 lives, mostly offset by an 8.5 percent decrease in the large case commercial market segment. Sales were 3.2 percent higher in the public sector market in first quarter of 2012 compared to the same period of 2011. The number of new accounts increased 3.0 percent in first quarter of 2012 compared to the same period of 2011, while the average new case size was 17.2 percent lower.

Segment Outlook

Our premium growth in first quarter of 2012 was in line with the level of growth in the same period of 2011 but was below the level of our long-term growth expectations. We believe slower sales and premium growth levels may continue in the near term if the current economic conditions persist and continue to affect employment growth and the buying patterns of employees. We expect volatility in net investment income to continue during the remainder of 2012 as a result of fluctuations in bond calls and other types of miscellaneous net investment income. Periods of economic downturns have historically had minimal impact on the risk results of Colonial Life, due primarily to a diversified product portfolio that is designed with short duration, indemnity benefits. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

We believe we have a stable business model, with service levels and customer retention that allow us to focus on and deliver premium growth despite the recent marketplace changes and uncertainties. We believe we are well positioned for growth and that opportunities exist to accelerate growth during the next several years by (i) focusing on target market segments, (ii) driving new sales in the public sector market, (iii) growing the reach and effectiveness of our distribution, and (iv) effectively serving our customers.

During the remainder of 2012, we expect premium growth to be modest relative to our long-term outlook. We believe that strong profit margins will continue, and we expect our overall benefit ratio to be generally consistent with the level of 2011. We believe further premium growth will re-emerge as the economy improves, employment growth accelerates, and our growth strategies gain momentum.

Closed Block Segment

The Closed Block segment consists of our closed individual disability and long-term care lines of business, as well as certain other insurance products. The individual disability line of business generally consists of those policies in-force before the substantial changes in product offerings, pricing, distribution, and underwriting, which generally occurred during the period 1994 through 1998. Long-term care includes group long-term care, which we announced in February 2012 that we would discontinue selling, and individual long-term care, which we discontinued selling in 2009. The other insurance products line of business consists of certain other products no longer actively marketed, including individual life and corporate-owned life insurance, reinsurance pools and management operations, group pension, health insurance, and individual annuities.

Operating Results

Shown below are financial results and key performance indicators for the Closed Block segment.
(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2012	% Change	2011	
Operating Revenue				
Premium Income				
Individual Disability	\$187.2	(7.5)%	\$202.3	
Long-term Care	155.2	3.1	150.6	
All Other	0.5	66.7	0.3	
Total Premium Income	342.9	(2.9)	353.2	
Net Investment Income	301.6	2.5	294.3	
Other Income	25.9	(5.8)	27.5	
Total	670.4	(0.7)	675.0	
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	578.7	2.8	562.7	
Commissions	28.5	(2.4)	29.2	
Interest and Debt Expense	2.7	—	2.7	
Deferral of Acquisition Costs	—	(100.0)	(0.8)	
Amortization of Deferred Acquisition Costs	—	(100.0)	3.5	
Other Expenses	45.1	(1.5)	45.8	
Total	655.0	1.9	643.1	
Operating Income Before Income Tax and Net Realized Investment Gains and Losses	\$15.4	(51.7)	\$31.9	
Interest Adjusted Loss Ratios:				
Individual Disability	83.1	%	84.7	%
Long-term Care	91.2	%	83.0	%
Operating Ratios (% of Premium Income):				
Other Expense Ratio	13.2	%	13.0	%
Before-tax Operating Income Ratio	4.5	%	9.0	%
Premium Persistency:				
Individual Disability	92.9	%	92.8	%

Long-term Care	95.9	%	95.6	%
Individual Disability				

The decrease in premium income in the first quarter of 2012 compared to the same period of 2011 is due to the run-off of this closed line of business driven by expected policy terminations and maturities. Net investment income was lower in the first quarter of 2012 compared to the same period of 2011 due to a lower level of assets supporting this closed line of business, partially offset by higher bond call premiums and an increase in the level of prepayment income on mortgage-backed securities.

Other income, which includes the underlying results of certain blocks of reinsured business and the net investment income of portfolios held by those ceding companies to support the block we have reinsured, decreased slightly in the first quarter of 2012 compared to the same period of 2011 due to lower investment income in the portfolios held by the ceding companies.

Risk results were favorable relative to the first quarter of 2011 due primarily to higher claim recoveries, partially offset by higher claim incidence rates.

Interest and debt expense in the first quarter of 2012 was consistent with the same period of 2011, as principal repayments on the amount of outstanding debt issued by Northwind Holdings were offset by an increase in floating-rate interest on this debt.

Long-term Care

The increase in premium income for the first quarter of 2012 compared to the same period of 2011 was driven by strong premium persistency and higher sales of group long-term care, which increased \$2.0 million in the first quarter of 2012 compared to the same period of 2011. Although we announced in the first quarter of 2012 that we would no longer sell group long-term care, we had group cases which were already in the quoting and/or underwriting process at the time of our announcement and for which we have now issued the policies. We expect a limited amount of new sales to also occur in the second quarter of 2012. Net investment income was higher in the first quarter of 2012 compared to the same period of 2011 due primarily to an increase in the level of assets supporting this line of business, higher bond call premiums, and an increase in the level of prepayment income on mortgage-backed securities.

Risk results in the first quarter of 2012 were unfavorable compared with the same period of 2011 due to higher claim incidence. We had no amortization of deferred acquisition costs due to the impairment charge recognized at December 31, 2011.

In late 2010, we began a process of filing requests with various state insurance departments for a rate increase on certain of our individual long-term care policies. The rate increase reflects current interest rates and claim experience, higher expected future claims, persistency, and other factors related to pricing individual long-term care coverage. In states for which a rate increase is submitted and approved, customers are also given options for coverage changes or other approaches that might fit their current financial and insurance needs. Higher premium income associated with the rate increase is expected to begin to emerge during the remaining quarters of 2012.

All Other

Operating income for our other insurance products decreased in the first quarter of 2012 compared to the same period of 2011 due to lower net investment income, which was driven by a lower level of assets supporting these closed lines of business, and lower other income.

Segment Outlook

We expect that this segment may experience volatility in net investment income due to the variability in interest rates on floating rate assets and also due to volatility of bond call premiums relative to historical levels. A portion of the volatility in interest income will be offset by commensurate changes in the interest expense on our individual disability floating rate debt.

We expect that operating revenue and income for this segment will continue to decline over time as these closed blocks of business wind down, although we do expect higher premium income associated with long-term care rate

increases. We also expect a small amount of new group long-term care business to continue to be sold on existing group policies. Profitability of our long-tailed products is affected by claims experience related to mortality and morbidity, investment returns, and persistency. We believe that the interest adjusted loss ratios for the individual disability and long-term care lines of business will be relatively flat over the long term, but these product lines may experience quarterly volatility. Claim resolution rates, which measure the resolution of claims from recovery, deaths, settlements, and benefit expirations, are very sensitive to operational and environmental changes and can be volatile. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period. It is possible that variability in any of our reserve assumptions, including, but not limited to, interest rates, mortality, morbidity, and persistency, could result in a material impact on our reserve levels, including adjustments to reserves previously established under loss recognition.

Corporate Segment

The Corporate segment includes investment income on corporate assets not specifically allocated to a line of business, interest expense on corporate debt other than non-recourse debt, and certain other corporate income and expense not allocated to a line of business. We previously allocated the amortization of prior period actuarial gains or losses, a component of the net periodic benefit costs for our pensions and other postretirement benefit plans, to our Corporate segment. These actuarial gains or losses are primarily driven by market performance and are not indicative of the operational results of our businesses. During the first quarter of 2012, we determined that we would modify our segment reporting. Effective January 1, 2012, the amortization of prior period actuarial gains or losses is no longer included in operating income or operating loss by segment. Prior period segment results for our Corporate segment have been adjusted to conform to current year reporting. See "Reconciliation of Non-GAAP Financial Measures" contained in this Item 2.

Operating Results
(in millions of dollars)

	Three Months Ended March 31		
	2012	% Change	2011
Operating Revenue			
Net Investment Income	\$7.2	(50.3)%	\$14.5
Other Income	0.3	(70.0)	1.0
Total	7.5	(51.6)	15.5
Expenses			
Interest and Debt Expense	32.5	(6.9)	34.9
Other Expenses	(4.4)	N.M.	2.4
Total	28.1	(24.7)	37.3
Operating Loss Before Non-operating Retirement-related Loss, Income Tax, and Net Realized Investment Gains and Losses	\$(20.6)	5.5	\$(21.8)

N.M. = not a meaningful percentage

Net investment income was lower in the first quarter of 2012 compared to the same period of 2011 due to lower asset levels, a lower proportion of assets invested at long-term interest rates, and an increase in the amortization of the principal amount invested in our tax-credit partnerships. The negative impact on net investment income and operating income by segment due to the higher level of investment in tax-credit partnerships is offset by a lower income tax rate due to the tax benefits recognized as a result of these investments.

Interest and debt expense decreased in the first quarter of 2012 compared to the same period of 2011 due primarily to the maturity of \$225.1 million of 7.625% senior notes in March 2011, partially offset by a higher rate of interest on \$350.0 million of senior notes which we converted into floating rate debt through the use of an interest rate swap. Other expenses decreased in the first quarter of 2012 compared to the same period of 2011 due primarily to decreases in expense accruals.

Segment Outlook

We expect the quality of our investment portfolio to remain strong in 2012. We are currently holding capital at our insurance subsidiaries and holding companies at levels that exceed our long-term requirements. We expect to continue to generate excess capital on an annual basis through our statutory earnings. While we intend to maintain our disciplined approach to risk management throughout 2012, we believe we are well positioned with substantial

flexibility to preserve our capital strength and at the same time explore opportunities to deploy the excess capital that is generated each period.

Investments Overview

Investment activities are an integral part of our business, and profitability is significantly affected by investment results. We segment our invested assets into portfolios that support our various product lines. Generally, our investment strategy for our portfolios is to match the effective asset cash flows and durations with related expected liability cash flows and durations to consistently meet the liability funding requirements of our businesses. We seek to earn investment income while assuming credit risk in a prudent and selective manner, subject to constraints of quality, liquidity, diversification, and regulatory considerations. Our overall investment philosophy is to invest in a portfolio of high quality assets that provide investment returns consistent with that assumed in the pricing of our insurance products. Assets are invested predominately in fixed maturity securities. Changes in interest rates may affect the amount and timing of cash flows.

We actively manage our asset and liability cash flow match and our asset and liability duration match to limit interest rate risk. We may redistribute investments among our different lines of business, when necessary, to adjust the cash flow and/or duration of the asset portfolios to better match the cash flow and duration of the liability portfolios. Asset and liability portfolio modeling is updated on a quarterly basis and is used as part of the overall interest rate risk management strategy. Cash flows from the in-force asset and liability portfolios are projected at current interest rate levels and also at levels reflecting an increase and a decrease in interest rates to obtain a range of projected cash flows under the different interest rate scenarios. These results enable us to assess the impact of projected changes in cash flows and duration resulting from potential changes in interest rates. Testing the asset and liability portfolios under various interest rate scenarios enables us to choose the most appropriate investment strategy as well as to limit the risk of disadvantageous outcomes. We use this analysis in determining hedging strategies and utilizing derivative financial instruments for managing interest rate risk and the risk related to matching duration for our assets and liabilities. We do not use derivative financial instruments for speculative purposes.

Our investment portfolio is well diversified by type of investment and industry sector. We have established an investment strategy that we believe will provide for adequate cash flows from operations and allow us to hold our securities through periods where significant decreases in fair value occur. We believe our emphasis on risk management in our investment portfolio, including credit and interest rate management, has positioned us well and generally reduced the volatility in our results.

We have no exposure to subprime mortgages, "Alt-A" loans, or collateralized debt obligations in our asset-backed, mortgage-backed securities, or public bond portfolios. We have no direct exposure to sovereign debt of certain countries in the European Union, specifically Greece, Ireland, Italy, Portugal, and Spain. At March 31, 2012, we had minimal exposure to investments for which the payment of interest and principal is guaranteed under a financial guaranty insurance policy, and all such securities are rated investment-grade absent the guaranty insurance policy. At March 31, 2012, we held \$299.9 million fair value (\$305.9 million amortized cost) of perpetual debentures, or "hybrid" securities, that generally have no fixed maturity date. Interest on these securities due on any payment date may be deferred by the issuer. The interest payments are generally deferrable only to the extent that the issuer has suspended dividends or other distributions or payments to any of its shareholders or any other perpetual debt instrument.

For information on our valuation of investments and our formal investment policy, including our overall quality and diversification objectives, see "Critical Accounting Estimates" and "Investments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2011.

Investment Results

Net investment income was slightly higher in the first quarter of 2012 relative to the same period of 2011 due primarily to continued growth in the level of invested assets and an increase in income from bond call premiums and private equity partnerships, mostly offset by lower income on index-linked bonds which support the claim reserves associated with certain of our Unum UK group policies that provide for inflation-linked increases in benefits as well as an increase in the amortization of the principal amount invested in our tax-credit partnerships.

The duration weighted book yield on the fixed income securities in our investment portfolio was 6.62 percent as of March 31, 2012, compared to a yield of 6.67 percent as of December 31, 2011. As previously stated, we actively manage our asset and liability cash flow match and our asset and liability duration match with the objective of limiting interest rate risk. Duration is a measure of the percentage change in the fair values of assets and liabilities for a given change in interest rates. Cash flows from the in-force asset and liability portfolios are projected at current interest rate levels and also at levels reflecting an increase and a decrease in interest rates to obtain a range of projected cash flows under the different interest rate scenarios. These results enable us to assess the impact of projected changes in cash flows and duration resulting from potential changes in interest rates.

To assess the impact of a duration mismatch, we measure the potential changes in estimated fair value based on a hypothetical change in interest rates to quantify a dollar value change. Although we test the asset and liability portfolios under various interest rate scenarios as part of our modeling, the majority of our liabilities related to insurance contracts are not interest rate sensitive, and we therefore have minimal exposure to policy withdrawal risk. Our determination of investment strategy relies more on long-term measures such as reserve adequacy analysis and the relationship between the portfolio yields supporting our various product lines and the aggregate discount rates embedded in the reserves.

Realized investment gains and losses, before tax, are as follows:
(in millions of dollars)

	Three Months Ended March 31	
	2012	2011
Fixed Maturity Securities		
Gross Gains on Sales	\$5.9	\$9.5
Gross Losses on Sales	(5.0)	(6.9)
Other-Than-Temporary Impairment Loss	—	(2.3)
Mortgage Loans and Other Invested Assets		
Gross Gains on Sales	—	1.2
Impairment Loss	(0.5)	—
Foreign Currency Transactions	(0.3)	(0.4)
Embedded Derivative in Modified Coinsurance Arrangement	12.3	14.1
Net Realized Investment Gain	\$12.4	\$15.2

We had no individual realized investment losses of \$10.0 million or greater from other-than-temporary impairments or from the sale of fixed-maturity securities during the first quarter of 2012 or 2011.

We report changes in the fair value of an embedded derivative in a modified coinsurance arrangement as realized investment gains and losses, as required under the provisions of GAAP. GAAP requires us to include in our realized investment gains and losses a calculation intended to estimate the value of the option of our reinsurance counterparty to cancel the reinsurance contract with us. However, neither party can unilaterally terminate the reinsurance agreement except in extreme circumstances resulting from regulatory supervision, delinquency proceedings, or other direct regulatory action. Cash settlements or collateral related to this embedded derivative are not required at any time during the reinsurance contract or at termination of the reinsurance contract, and any accumulated embedded derivative gain or loss reduces to zero over time as the reinsured business winds down. We therefore view the effect of realized gains and losses recognized for this embedded derivative as a reporting requirement that will not result in a permanent change in assets or stockholders' equity.

The change in fair value of this embedded derivative recognized as a realized gain during the first quarter of 2012 and 2011 resulted primarily from a change in credit spreads in the overall investment market. The fair value of this embedded derivative was \$(123.4) million at March 31, 2012, compared to \$(135.7) million at December 31, 2011, and is reported in other liabilities in our consolidated balance sheets.

Fixed Maturity Securities

The fair values and associated unrealized gains and losses of our fixed maturity securities portfolio, by industry classification, are as follows:

Fixed Maturity Securities - By Industry Classification

As of March 31, 2012

(in millions of dollars)

Classification	Fair Value	Net Unrealized Gain	Fair Value of Fixed Maturity Securities with Gross Unrealized Loss	Gross Unrealized Loss	Fair Value of Fixed Maturity Securities with Gross Unrealized Gain	Gross Unrealized Gain
Basic Industry	\$2,386.5	\$213.9	\$254.1	\$20.7	\$2,132.4	\$234.6
Capital Goods	3,732.8	421.4	364.3	23.6	3,368.5	445.0
Communications	2,823.9	404.3	144.0	14.3	2,679.9	418.6
Consumer Cyclical	1,168.6	131.9	156.0	5.8	1,012.6	137.7
Consumer Non-Cyclical	5,381.7	794.4	175.5	7.2	5,206.2	801.6
Energy (Oil & Gas)	3,699.6	586.8	129.5	2.6	3,570.1	589.4
Financial Institutions	3,514.4	204.1	559.4	30.4	2,955.0	234.5
Mortgage/Asset-Backed	2,842.3	337.9	47.6	0.9	2,794.7	338.8
Sovereigns	1,411.8	226.5	—	—	1,411.8	226.5
Technology	876.6	120.4	32.6	1.4	844.0	121.8
Transportation	1,281.7	195.0	28.1	0.6	1,253.6	195.6
U.S. Government Agencies and Municipalities	2,806.0	467.8	158.0	13.2	2,648.0	481.0
Utilities	10,440.9	1,414.9	358.3	36.1	10,082.6	1,451.0
Redeemable Preferred Stocks	44.4	3.9	6.9	0.6	37.5	4.5
Total	\$42,411.2	\$5,523.2	\$2,414.3	\$157.4	\$39,996.9	\$5,680.6

The following two tables show the length of time our investment-grade and below-investment-grade fixed maturity securities had been in a gross unrealized loss position as of March 31, 2012 and at the end of the prior four quarters. The relationships of the current fair value to amortized cost are not necessarily indicative of the fair value to amortized cost relationships for the securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of the relationships after March 31, 2012.

Unrealized Loss on Investment-Grade Fixed Maturity Securities

Length of Time in Unrealized Loss Position

(in millions of dollars)

	2012 March 31	2011 December 31	September 30	June 30	March 31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	\$15.6	\$12.8	\$38.9	\$16.7	\$14.8
> 90 <= 180 days	7.1	34.3	14.1	2.9	82.4
> 180 <= 270 days	9.6	8.0	—	39.7	14.5
> 270 days <= 1 year	2.2	—	24.6	14.8	1.6
> 1 year <= 2 years	19.3	33.7	11.4	2.6	1.5
> 2 years <= 3 years	0.2	1.1	1.8	2.4	9.6
> 3 years	34.0	40.9	28.1	42.2	37.2
Sub-total	88.0	130.8	118.9	121.3	161.6
Fair Value < 70% >= 40% of Amortized Cost					
> 2 years <= 3 years	—	—	—	3.3	3.4
> 3 years	—	9.5	27.1	11.1	11.9
Sub-total	—	9.5	27.1	14.4	15.3
Total	\$88.0	\$140.3	\$146.0	\$135.7	\$176.9

Unrealized Loss on Below-Investment-Grade Fixed Maturity Securities

Length of Time in Unrealized Loss Position

(in millions of dollars)

	2012 March 31	2011 December 31	September 30	June 30	March 31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	\$4.8	\$3.3	\$39.5	\$3.9	\$5.2
> 90 <= 180 days	9.5	11.9	15.6	0.7	4.0
> 180 <= 270 days	7.9	8.5	1.6	4.6	0.1
> 270 days <= 1 year	6.5	0.7	6.7	0.1	3.1
> 1 year <= 2 years	15.7	13.0	13.7	3.5	—
> 2 years <= 3 years	—	—	0.3	5.3	5.1
> 3 years	24.6	37.3	35.2	18.0	23.3
Sub-total	69.0	74.7	112.6	36.1	40.8
Fair Value < 70% >= 40% of Amortized Cost					
> 180 <= 270 days	—	—	0.7	—	—
> 1 year <= 2 years	—	5.0	—	—	—
> 3 years	0.4	2.2	10.3	0.4	0.4
Sub-total	0.4	7.2	11.0	0.4	0.4

Total	\$69.4	\$81.9	\$123.6	\$36.5	\$41.2
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The following table shows our fixed maturity securities with a gross unrealized loss of \$10.0 million or greater, by industry type. We held no securities at March 31, 2012 with a gross unrealized loss of \$20.0 million or greater.

Gross Unrealized Losses \$10 Million or Greater on Fixed Maturity Securities

As of March 31, 2012

(in millions of dollars)

Classification	Fair Value	Gross Unrealized Loss	Number of Issuers
Investment-Grade Financial Institutions	\$79.2	\$10.4	1

At March 31, 2012, our mortgage/asset-backed securities had an average life of 4.09 years, effective duration of 3.64 years, and a weighted average credit rating of AAA. The mortgage/asset-backed securities are valued on a monthly basis using valuations supplied by the brokerage firms that are dealers in these securities as well as independent pricing services. One of the risks involved in investing in mortgage/asset-backed securities is the uncertainty of the timing of cash flows from the underlying loans due to prepayment of principal with the possibility of reinvesting the funds in a lower interest rate environment. We use models which incorporate economic variables and possible future interest rate scenarios to predict future prepayment rates. The timing of prepayment cash flows may also cause volatility in our recognition of investment income. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment income.

We have not invested in mortgage-backed derivatives, such as interest-only, principal-only, or residuals, where market values can be highly volatile relative to changes in interest rates. All of our mortgage-backed securities have fixed rate coupons. The credit quality of our mortgage-backed securities portfolio has not been negatively impacted by the issues in the market concerning subprime mortgage loans. The change in value of our mortgage-backed securities portfolio has moved in line with that of prime agency-backed mortgage-backed securities.

As of March 31, 2012, the amortized cost and fair value of our below-investment-grade fixed maturity securities was \$2,858.7 million and \$2,936.7 million, respectively. Below-investment-grade securities are inherently more risky than investment-grade securities since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but we do not anticipate any liquidity problems resulting from our investments in below-investment-grade securities, nor do we expect these investments to adversely affect our ability to hold our other investments to maturity.

Investments in Issuers in Certain European Countries and Other Countries with Risk of Sovereign Default

Our investments are chosen for specific portfolio management purposes, including asset and liability management and portfolio diversification across geographic lines and sectors to minimize non-market risks. In our approach to investing in fixed maturity securities, specific investments within approved countries and industry sectors are evaluated for their market position and specific strengths and potential weaknesses. For each security, we consider the political, legal and financial environment of the sovereign entity in which an issuer is domiciled and operates. The country of domicile is based on consideration of the issuer's headquarters, in addition to location of the assets and the country in which the majority of sales and earnings are derived. We continually evaluate our foreign investment risk exposure, including that within certain countries in the European Union, specifically Greece, Ireland, Italy, Portugal, and Spain. Our monitoring is heightened for investments in these specific countries due to our concerns over the current economic and political environments as well as the banking crisis, and we believe these investments are more

vulnerable to potential credit problems. We have neither direct nor indirect exposure to sovereign debt of any other countries for which we believe there is a heightened risk of sovereign default.

We do not have foreign currency risk, as the cash flows from these investments are denominated in currencies to match the related liabilities. We have no direct exposure to sovereign debt of these countries and have not used credit derivatives to hedge our exposure or to sell credit protection. Our exposure relates only to non-financial institutions and is as follows:

European Fixed Maturity Securities Exposure - By Country
As of March 31, 2012
(in millions of dollars)

	Fair Value	Amortized Cost
Greece	\$55.3	\$50.2
Ireland	61.4	66.7
Italy	213.2	219.3
Portugal	82.2	88.4
Spain	160.7	158.5
Total	\$572.8	\$583.1

We have no unfunded commitments to issuers domiciled in these countries. Further discussion on our exposure to each country is as follows:

Greece

We have no direct exposure to Greek financial institutions. Our singular holding domiciled in Greece is a geographically diversified company, generates less than 10 percent of its revenue from Greece, and was rated investment-grade as of March 31, 2012. The company aggregates cash and manages its debt payments outside the country in which it is domiciled, which we believe enables the company to place low reliance on the banking system of Greece. As of March 31, 2012, this company was current on its obligations to us, and we believe it will continue to meet its debt obligations. This security was in an unrealized gain position as of March 31, 2012.

Ireland

We have no direct exposure to Irish financial institutions. In November 2010, Ireland received a support package valued at €85 billion from the International Monetary Fund/European Union based on its plan of recovery. Thus far, Ireland appears committed to fiscal consolidation. However, we believe there are risks associated with the austerity and recessionary pressures. As of March 31, 2012, all of our Irish investments were current on their obligations to us, and we believe they will continue to meet their debt obligations. In addition, we have the intent to hold these investments to recovery in value. As a result, we did not recognize any other-than-temporary impairment losses on these investments as of March 31, 2012.

Italy

We have no direct exposure to Italian financial institutions. We believe there are risks associated with the debt sustainability of Italy given the high refinancing rates, lack of competitiveness, and recessionary pressures. As of March 31, 2012, all of our Italian investments were current on their obligations to us, and we believe they will continue to meet their debt obligations. In addition, we have the intent to hold these investments to recovery in value. As a result, we did not recognize any other-than-temporary impairment losses on these investments as of March 31, 2012.

Portugal

We have no direct exposure to Portuguese financial institutions. In May 2011, Portugal received a support package valued at €78 billion from the International Monetary Fund/European Union. We believe there is risk that Portugal will be unable to achieve the deficit reduction targets set out in this loan agreement, and future aid may require private sector participation. As of March 31, 2012, our holdings in Portugal consisted of two issuers, one of which was recently downgraded to below-investment grade. These companies were current on their obligations to us, and we believe they will continue to meet their debt obligations. In addition, we have the intent to hold these investments to recovery in value. As a result, we did not recognize any other-than-temporary impairment losses on these investments as of March 31, 2012.

Spain

We have no direct exposure to Spanish financial institutions, although we do own fixed maturity securities of certain United Kingdom and United States subsidiaries of Spanish financial institutions. We believe there are risks associated with Spain's high unemployment, large budget deficit, banking sector problems in which the market expects more impairment losses, and recessionary pressures. All of our Spanish domiciled securities were rated investment-grade as of March 31, 2012 and were current on their obligations to us. We believe they will continue to have the ability to meet their debt obligations. In addition, we have the intent to hold these investments to recovery in value. As a result, we did not recognize any other-than-temporary impairment losses on these investments as of March 31, 2012.

Risk Management

While we have no direct sovereign holdings in the aforementioned countries, we have performed comprehensive stress testing and scenario analyses on all of our corporate holdings of issuers domiciled in these countries. We have performed stress tests under a number of scenarios including deep recession, liquidity crisis, and currency redenomination with significant devaluation. We continue to closely monitor this situation.

A potential risk for these corporate holdings is access to bank lines in their countries of domicile and redenomination risk as it pertains to their outstanding liabilities. Even in the scenario of currency redenomination and liquidity crisis, we believe the risk is largely mitigated because our holdings in these countries are non-financial and operate in defensive industries that provide essential services. Most are market leaders with access to diverse, global capital markets. Current developments regarding ratings downgrades, bailout packages, or higher sovereign interest rates have not had a material impact on our financial condition or results of operations.

Mortgage Loans

Our mortgage loan portfolio was \$1,615.9 million and \$1,612.3 million on an amortized cost basis at March 31, 2012 and December 31, 2011, respectively. Our mortgage loan portfolio is comprised entirely of commercial mortgage loans. We believe our mortgage loan portfolio is well diversified geographically and among property types. The incidence of problem mortgage loans and foreclosure activity continues to be low. Due to conservative underwriting, we expect the level of problem loans to remain low relative to the industry.

We held two mortgage loans at March 31, 2012 and December 31, 2011 which were considered impaired. These mortgage loans were carried at the estimated net realizable values of \$22.0 million and \$22.5 million, respectively, net of a valuation allowance of \$2.0 million and \$1.5 million, respectively. During the first quarter of 2012, we determined that an additional mortgage loan was impaired, and we subsequently foreclosed on it and transferred it into other long-term investments in our consolidated balance sheets. No realized loss was recognized on the foreclosure.

Derivative Financial Instruments

We use derivative financial instruments primarily to manage reinvestment risk, duration, and currency risk. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps, current and forward currency swaps, forward treasury locks, currency forward contracts, and forward contracts on specific fixed income securities. Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position less collateral held, was \$8.7 million at March 31, 2012. We held \$42.6 million of cash collateral from our counterparties at March 31, 2012. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$135.1 million at March 31, 2012. We believe that our credit risk is mitigated by our use of multiple counterparties, all of which have a median credit rating of A or better, and by our use of cross-collateralization agreements.

Other

Our exposure to non-current investments, defined as foreclosed real estate and invested assets which are delinquent as to interest and/or principal payments, totaled \$54.8 million and \$58.6 million on a fair value basis at March 31, 2012 and December 31, 2011, respectively.

See Notes 4 and 5 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion of our investments and our derivative financial instruments.

Liquidity and Capital Resources

Our liquidity requirements are met primarily by cash flows provided from operations, principally in our insurance subsidiaries. Premium and investment income, as well as maturities and sales of invested assets, provide the primary sources of cash. Debt and/or securities offerings provide an additional source of liquidity. Cash is applied to the payment of policy benefits, costs of acquiring new business (principally commissions), operating expenses, and taxes, as well as purchases of new investments.

We have established an investment strategy that we believe will provide for adequate cash flows from operations. We attempt to match our asset cash flows and durations with expected liability cash flows and durations to meet the funding requirements of our business. However, deterioration in the credit market may delay our ability to sell our positions in certain of our fixed maturity securities in a timely manner and adversely impact the price we receive for such securities, which may negatively impact our cash flows. Furthermore, if we experience defaults on securities held in the investment portfolios of our insurance subsidiaries, this will negatively impact statutory capital, which could reduce our insurance subsidiaries' capacity to pay dividends to our holding companies. A reduction in dividends to our holding companies could force us to seek external financing to avoid impairing our ability to pay dividends to our stockholders or meet our debt and other payment obligations.

Our policy benefits are primarily in the form of claim payments, and we have minimal exposure to the policy withdrawal risk associated with deposit products such as individual life policies or annuities. A decrease in demand for our insurance products or an increase in the incidence of new claims or the duration of existing claims could negatively impact our cash flows from operations. However, our historical pattern of benefits paid to revenues is consistent, even during cycles of economic downturns, which serves to minimize liquidity risk.

We have met all minimum pension funding requirements set forth by ERISA. We expect to make a voluntary contribution of approximately \$53.0 million to our U.S. qualified defined benefit plan during 2012, none of which has yet been contributed. We have estimated our future funding requirements under the Pension Protection Act of 2006 and do not believe that the funding requirements will cause a material adverse effect on our liquidity.

We also contribute to our U.K. pension plan sufficient to meet the minimum funding requirement under U.K. legislation. We expect to make contributions of approximately £2.9 million during 2012, £0.7 million of which was contributed during the first quarter of 2012.

In May 2010, our board of directors authorized the repurchase of up to \$500.0 million of Unum Group's common stock, with the pace of repurchase activity to depend upon various factors such as the level of available cash, alternative uses for cash, and our stock price. The \$500.0 million share repurchase program had an expiration date of May 2011. In February 2011, our board of directors authorized the repurchase of up to \$1.0 billion of Unum Group's common stock, in addition to the amount remaining to be repurchased under the \$500.0 million authorization. The \$1.0 billion share repurchase program has an expiration date of August 2012.

During the first quarter of 2011, we repurchased 7.1 million shares, at a cost of \$200.0 million, using an accelerated repurchase agreement with a financial counterparty. Under the terms of the repurchase agreement, we received a price adjustment based on the volume weighted-average price of our common stock during the term of the agreement. The price adjustment resulted in the delivery to us of approximately 0.6 million additional shares. In total, we repurchased 7.7 million shares of our common stock under this agreement. The shares repurchased pursuant to the accelerated repurchase agreement completed the \$500.0 million repurchase authorization and initiated the \$1.0 billion repurchase program. In addition to these repurchases, during 2011 we repurchased an additional 17.7 million shares on the open market at a cost of \$419.9 million, for a total repurchase of 25.4 million shares during 2011. During the first quarter of 2012, we repurchased 7.5 million shares on the open market at a cost of \$175.2 million. As of March 31, 2012 we had

\$349.7 million remaining under the \$1.0 billion repurchase authorization.

Cash equivalents and marketable securities held at Unum Group and our other intermediate holding companies are a significant source of liquidity for us and were approximately \$575 million and \$756 million at March 31, 2012 and December 31, 2011, respectively. The decrease during the first quarter of 2012 reflects the repurchase of shares of our common stock. The March 31, 2012 balance, of which \$98 million was held in certain of our foreign subsidiaries in the U.K., was comprised primarily of commercial paper, fixed maturity securities with a current average maturity of 2.75 years, and various money-market funds. No significant restrictions exist on our ability to use or access these funds, with the exception of funds held in the U.K. We currently have no intent, nor do we foresee a need, to repatriate funds from our foreign subsidiaries in the U.K. We believe we hold domestic resources sufficient to fund our liquidity requirements for the next 12 months and that our current level of holding company cash and marketable securities can be utilized to mitigate potential losses from defaults. If we repatriate additional funds from our subsidiaries in the U.K., the amounts repatriated would be subject to repatriation tax effects which generally equal the difference in the U.S. tax rate and the U.K. tax rate.

Consolidated Cash Flows

Operating Cash Flows

Net cash provided by operating activities was \$329.3 million for the first quarter of 2012, compared to \$301.0 million in the same period of 2011. Operating cash flows are primarily attributable to the receipt of premium and investment income, offset by payments of claims, commissions, expenses, and income taxes. Premium income growth is dependent not only on new sales, but on renewals of existing business, renewal price increases, and persistency.

Investment income growth is dependent on the growth in the underlying assets supporting our insurance reserves and on the earned yield. The level of commissions and operating expenses is attributable to the level of sales and the first year acquisition expenses associated with new business as well as the maintenance of existing business. The level of paid claims is affected partially by the growth and aging of the block of business and also by the general economy, as previously discussed in the operating results by segment.

Investing Cash Flows

Investing cash inflows consist primarily of the proceeds from the sales and maturities of investments. Investing cash outflows consist primarily of payments for purchases of investments. Net cash used by investing activities was \$181.8 million for the first quarter of 2012, compared to net cash provided of \$188.0 million for the same period of 2011.

Our sales of available-for-sale securities decreased in the first quarter of 2012 compared to the same period of 2011 due to the lack of suitable available securities in which to reinvest our proceeds. Proceeds from maturities of available-for-sale securities were higher in the first quarter of 2012 compared to the same period of 2011 primarily due to a significant increase in bond calls and maturities.

Proceeds from sales and maturities of other investments decreased slightly in the first quarter of 2012 compared to the same period of 2011 primarily due to a decrease in maturities from mortgage loans mostly offset by an increase in proceeds from terminations of derivative contracts within our cash flow hedging programs.

Purchases of available-for-sale securities were lower in the first quarter of 2012 compared to the same period of 2011. Funds available for reinvestment increased during the first quarter of 2012 due to the increase in proceeds from bond calls and maturities, as previously noted. However, lower treasury rates and less favorable credit spreads resulted in the availability of fewer fixed maturity securities in which to invest to meet our investment objectives.

Purchases of other investments decreased in the first quarter of 2012 compared to the same period of 2011 as a result of a decrease in funding of mortgage loans, partially offset by a slight increase in funding of tax credit partnerships.

Net purchases of short-term investments increased in the first quarter of 2012 compared to the same period of 2011 due to the increase in bond calls and maturities, with the proceeds invested in short-term investments pending the purchase of fixed maturity investments. We also had an increase in activity within our securities lending program which contributed to an increase in purchases of short-term investments due to the investment of cash collateral received. Additionally, we had net sales of short-term investments in the first quarter of 2011 to provide funding for payment for our debt maturing in March 2011.

Financing Cash Flows

Financing cash flows consist primarily of borrowings and repayments of debt, issuance or repurchase of common stock, and dividends paid to stockholders. Net cash used by financing activities was \$161.6 million for the first quarter of 2012, compared to \$486.0 million in the same period of 2011.

During the first quarter of 2011, we made short-term debt repayments of \$225.1 million at the maturity date of our remaining 7.625% senior notes due March 2011.

During each of the first quarters of 2012 and 2011, Tailwind Holdings made principal payments of \$2.5 million on its floating rate, senior secured non-recourse notes and Northwind Holdings made principal payments of \$15.0 million

and \$21.7 million, respectively, on its floating rate, senior secured non-recourse notes.

As of March 31, 2012, the amount outstanding under our securities lending program was \$372.2 million. We did not utilize our securities lending program during the first quarter of 2011.

During the first quarter of 2012 and 2011, we repurchased 7.5 million and 8.6 million shares of Unum Group's common stock, respectively, at a cost of \$175.2 million and \$223.6 million, respectively. Approximately \$7.9 million of the amount repurchased during the first quarter of 2011 was settled in April 2011.

See "Debt" contained in this Item 2 for further information.

Cash Available from Subsidiaries

Unum Group and certain of its intermediate holding company subsidiaries depend on payments from subsidiaries to pay dividends to stockholders, to pay debt obligations, and/or to pay expenses. These payments by our insurance and non-insurance subsidiaries may take the form of dividends, operating and investment management fees, and/or interest payments on loans from the parent to a subsidiary.

Restrictions under applicable state insurance laws limit the amount of dividends that can be paid to a parent company from its insurance subsidiaries in any 12-month period without prior approval by regulatory authorities. For life insurance companies domiciled in the United States, that limitation generally equals, depending on the state of domicile, either ten percent of an insurer's statutory surplus with respect to policyholders as of the preceding year end or the statutory net gain from operations, excluding realized investment gains and losses, of the preceding year. The payment of dividends to a parent company from its insurance subsidiaries is generally further limited to the amount of unassigned statutory surplus.

Unum Group and/or certain of its intermediate holding company subsidiaries may also receive dividends from its United Kingdom-based affiliate, Unum Limited, subject to applicable insurance company regulations and capital guidance in the United Kingdom.

Northwind Holdings' and Tailwind Holdings' ability to meet their debt payment obligations is dependent upon the receipt of dividends from Northwind Reinsurance Company (Northwind Re) and Tailwind Reinsurance Company (Tailwind Re), respectively. The ability of Northwind Re and Tailwind Re to pay dividends to their respective parent companies will depend on their satisfaction of applicable regulatory requirements and on the performance of the business reinsured by Northwind Re and Tailwind Re.

The payment of dividends to the parent company from our subsidiaries also requires the approval of the individual subsidiary's board of directors.

The ability of Unum Group and certain of its intermediate holding company subsidiaries to continue to receive dividends from their insurance subsidiaries generally depends on the level of earnings of those insurance subsidiaries and additional factors such as RBC ratios and FSA capital adequacy requirements, funding growth objectives at an affiliate level, and maintaining appropriate capital adequacy ratios to support desired ratings. Insurance regulatory restrictions do not limit the amount of dividends available for distribution from non-insurance subsidiaries except where the non-insurance subsidiaries are held directly or indirectly by an insurance subsidiary and only indirectly by Unum Group. We intend to retain a level of capital in our traditional U.S. insurance subsidiaries such that we maintain a weighted average RBC level above capital adequacy requirements. We also expect Unum Limited to operate above FSA capital adequacy requirements and minimum solvency margins.

Debt

At March 31, 2012, we had short-term debt of \$372.2 million, consisting entirely of securities lending agreements, and long-term debt, including senior secured notes and junior subordinated debt securities, totaling \$2,552.8 million. Our leverage ratio, when calculated using consolidated debt to total consolidated capital, was 28.9 percent at March 31, 2012, compared to 28.7 percent at December 31, 2011. Our leverage ratio, when calculated excluding the non-recourse debt and associated capital of Tailwind Holdings and Northwind Holdings and the short-term debt arising from securities lending agreements, was 23.4 percent at March 31, 2012, compared to 23.5 percent at December 31, 2011. The increase in our consolidated debt to total consolidated capital leverage ratio is due primarily to the increase in short-term debt related to securities lending agreements outstanding at March 31, 2012, partially offset by our principal payments on the debt of Northwind Holdings and Tailwind Holdings during the first quarter of

2012. Leverage is measured as total debt to total capital, which we define as total long-term and short-term debt plus stockholders' equity, excluding the net unrealized gain or loss on securities and the net gain or loss on cash flow hedges. We believe that a leverage ratio which excludes the net unrealized gains and losses on securities and the net gain or loss on cash flow hedges, both of which tend to fluctuate depending on market conditions and general economic trends, and which also excludes the non-recourse debt and associated capital of Tailwind Holdings and Northwind Holdings and the short-term debt arising from securities lending is a better indicator of our ability to meet our financial obligations.

We monitor our compliance with our debt covenants. There are no significant financial covenants associated with any of our outstanding debt obligations. We remain in compliance with all debt covenants and have not observed any current trends that would cause a breach of any debt covenants.

See "Debt" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2011, for further discussion.

Commitments

At March 31, 2012, we had legally binding unfunded commitments of \$152.0 million and \$5.7 million, which are recognized as liabilities in our consolidated balance sheets, to fund tax credit partnership investments and transferable state tax credits, respectively, with a corresponding recognition of other long-term investments and other assets, respectively. In addition, we had non-binding commitments of \$81.0 million to fund certain investments in private placement fixed maturity securities, \$84.9 million to fund certain private equity partnerships, and \$29.9 million to fund certain commercial mortgage loans. These amounts may or may not be funded.

With respect to our commitments and off-balance sheet arrangements, see the discussion under "Commitments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2011. During the first three months of 2012, there were no substantive changes in our commitments, contractual obligations, or other off-balance sheet arrangements other than the changes in outstanding long-term and short-term debt as noted herein.

Transfers of Financial Assets

To manage our cash position more efficiently, we may enter into repurchase agreements with unaffiliated financial institutions. We generally use repurchase agreements as a means to finance the purchase of invested assets or for short-term general business purposes until projected cash flows become available from our operations or existing investments. Our repurchase agreements are typically outstanding for less than 30 days. We post collateral through our repurchase agreement transactions whereby the counterparty commits to purchase securities with the agreement to resell them to us at a later, specified date. The fair value of collateral posted is generally 102 percent of the cash received.

Our investment policy also permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements, which increase our investment income with minimal risk. We account for all of our securities lending agreements and repurchase agreements as collateralized financings. We had \$372.2 million of securities lending agreements outstanding which were collateralized by cash at March 31, 2012 and were reported as short-term debt in our consolidated balance sheets. The cash received as collateral was reinvested in short-term investments. The average balance during the first quarter of 2012 was \$360.2 million, and the maximum amount outstanding at any month end was \$372.2 million. In addition, at March 31, 2012, we had \$16.4 million of off-balance sheet securities lending agreements which were collateralized by securities that we were neither permitted to sell nor control. The average balance of these off-balance sheet transactions during the first quarter of 2012 was \$16.4 million, and the maximum amount outstanding at any month end was \$16.9 million.

We had no repurchase agreements outstanding at March 31, 2012, nor did we utilize any repurchase agreements during the first quarter of 2012. Our use of repurchase agreements and securities lending agreements can fluctuate during any given period and will depend on our liquidity position, the availability of long-term investments that meet our purchasing criteria, and our general business needs.

Ratings

AM Best, Fitch, Moody's, and S&P are among the third parties that assign issuer credit ratings to Unum Group and financial strength ratings to our insurance subsidiaries. Issuer credit ratings reflect an agency's opinion of the overall financial capacity of a company to meet its senior debt obligations. Financial strength ratings are specific to each individual insurance subsidiary and reflect each rating agency's view of the overall financial strength (capital levels, earnings, growth, investments, business mix, operating performance, and market position) of the insuring entity and its ability to meet its obligations to policyholders. Both the issuer credit ratings and financial strength ratings incorporate quantitative and qualitative analyses by rating agencies and are routinely reviewed and updated on an

ongoing basis.

We compete based in part on the financial strength ratings provided by rating agencies. A downgrade of our financial strength ratings can be expected to adversely affect us and could potentially, among other things, adversely affect our relationships with distributors of our products and services and retention of our sales force, negatively impact persistency and new sales, particularly large case group sales and individual sales, and generally adversely affect our ability to compete. A downgrade in the issuer credit rating assigned to Unum Group can be expected to adversely affect our cost of capital or our ability to raise additional capital.

The table below reflects the issuer credit ratings for Unum Group and the financial strength ratings for each of our traditional insurance subsidiaries as of the date of this filing.

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Issuer Credit Ratings	AM Best bbb (Good)	Fitch BBB (Good)	Moody's Baa3 (Adequate)	S&P BBB- (Adequate)
Financial Strength Ratings				
Provident Life and Accident	A (Excellent)	A (Strong)	A3 (Good)	A- (Strong)
Provident Life and Casualty	A (Excellent)	A (Strong)	Not Rated	Not Rated
Unum Life of America	A (Excellent)	A (Strong)	A3 (Good)	A- (Strong)
First Unum Life	A (Excellent)	A (Strong)	A3 (Good)	A- (Strong)
Colonial Life & Accident	A (Excellent)	A (Strong)	A3 (Good)	A- (Strong)
Paul Revere Life	A (Excellent)	A (Strong)	A3 (Good)	A- (Strong)
Paul Revere Variable	B++(Good)	A (Strong)	A3 (Good)	Not Rated
Unum Limited	Not Rated	Not Rated	Not Rated	A- (Strong)

We maintain an ongoing dialogue with the four rating agencies that evaluate us in order to inform them of progress we are making regarding our strategic objectives and financial plans, as well as other pertinent issues. A significant component of our communications involves our annual review meeting with each of the four agencies. We hold other meetings throughout the year regarding our business, including, but not limited to, quarterly updates.

On February 6, 2012, Fitch affirmed its A rating of Unum Group and its domestic subsidiaries and affirmed the senior debt rating at BBB. Fitch's rating outlook for Unum Group is "stable."

There have been no other changes in any of the rating agencies' outlook statements or ratings during the first three months of 2012 or prior to the date of this filing.

Agency ratings are not directed toward the holders of our securities and are not recommendations to buy, sell, or hold our securities. Each rating is subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be regarded as an independent assessment, not conditional on any other rating. Given the dynamic nature of the ratings process, changes by these or other rating agencies may or may not occur in the near-term. Based on our ongoing dialogue with the rating agencies concerning our improved insurance risk profile, our financial flexibility, our operating performance, and the quality of our investment portfolio, we do not expect any negative actions from any of the four rating agencies related to either Unum Group's current issuer credit ratings or the financial strength ratings of its insurance subsidiaries. However, in the event that we are unable to meet the rating agency specific guideline values to maintain our current ratings, including but not limited to maintenance of our capital management metrics at the threshold values stated and maintenance of our financial flexibility and operational consistency, we could be placed on a negative credit watch, with a potential for a downgrade to both our issuer credit ratings and our financial strength ratings.

See our annual report on Form 10-K for the year ended December 31, 2011 for further information regarding our debt and financial strength ratings and the risks associated with rating changes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to various market risk exposures including interest rate risk and foreign exchange rate risk. With respect to our exposure to market risk, see the discussion under "Investments" in Item 2 of this Form 10-Q and in Part II, Item 7A of our annual report on Form 10-K for the year ended December 31, 2011. During the first three months of 2012, there was no substantive change to our market risk or the management of this risk.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective as of March 31, 2012.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

Refer to Part I, Item 1, Note 9 of the “Notes to Consolidated Financial Statements” for information on legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about our share repurchase activity for the first quarter of 2012:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share (1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Program (2)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (2)
January 1 - January 31, 2012	—	\$—	—	\$524,749,018
February 1 - February 29, 2012	3,735,385	22.86	3,735,385	439,349,876
March 1 - March 31, 2012	3,781,247	23.70	3,781,247	349,733,585
Total	7,516,632		7,516,632	

(1) The average price paid per share excludes the cost of commissions.

(2) On February 2, 2011, our board of directors authorized the repurchase of up to \$1.0 billion of Unum Group's common stock through August 2012.

ITEM 6. EXHIBITS

Index to Exhibits

Exhibit 10.1	Board Consulting Agreement between Unum Group and Robert O. Best dated as of April 16, 2012.
Exhibit 15	Letter Re: Unaudited Interim Financial Information.
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following financial statements from Unum Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed on May 2, 2012, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) the Notes to Consolidated Financial Statements.

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.

Unum Group
(Registrant)

Date: May 2, 2012

/s/ Thomas R. Watjen
Thomas R. Watjen
President and Chief Executive Officer

Date: May 2, 2012

/s/ Richard P. McKenney
Richard P. McKenney
Executive Vice President and Chief Financial Officer

Date: May 2, 2012

/s/ Vicki W. Corbett
Vicki W. Corbett
Senior Vice President, Controller