

UNITRIN INC
Form 11-K
June 25, 2007
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-18298

Unitrin, Inc. 401(k) Savings Plan

A. (Full Title of Plan)

Unitrin, Inc.

One East Wacker Drive

Chicago, IL 60601

B. (Name and Address of Issuer of Securities Held Pursuant to Plan)

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Required Information

Pursuant to the section of the General Instructions to Form 11-K entitled Required Information, this Annual Report on Form 11-K for the fiscal year ended December 31, 2006, consists of the audited financial statements of the Unitrin, Inc. 401(k) Savings Plan for the year ended December 31, 2006, and the related schedules thereto. The Unitrin, Inc. 401(k) Savings Plan is subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), and in accordance with Item 4 of the section of the General Instructions to Form 11-K entitled Required Information, the financial statements and schedules furnished herewith have been prepared in accordance with the financial reporting requirements of ERISA in lieu of the requirements of Items 1-3 of that section of the General Instructions. Schedules I, II and III are not submitted because they are either not applicable, the required information is included in the financial statements or notes thereto, or they are not required under ERISA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Plan Administrative Committee

Unitrin, Inc. 401(k) Savings Plan

We have audited, the accompanying statements of net assets available for benefits of the Unitrin, Inc. 401(k) Savings Plan (the Plan) as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2006 and the schedule of delinquent participant contributions are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules are the responsibility of the Plan's management. Such supplemental schedules have been subjected to the auditing procedures applied in our audit of the basic 2006 financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

As further described in Note 1, in 2006, the Plan adopted Financial Accounting Standards Board FSP AAG INV-1 and SOP 94-4-1 dealing with the accounting for the fully benefit-responsive contracts.

DELOITTE & TOUCHE LLP

Chicago, Illinois

June 25, 2007

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Unitrin, Inc. 401(k) Savings Plan

Statements of Net Assets Available for Benefits

As of December 31, 2006 and 2005

(Dollars in Thousands)

	2006	2005
Assets:		
Participant-Directed Investments at Fair Value (See Note 3)	\$ 267,338	\$ 239,918
Cash		10
Employer Contributions Receivable, Net of Forfeitures of \$0 in 2006 and \$16 in 2005	70	462
Participant Contributions Receivable	202	1,337
Net Assets Available for Benefits at Fair Value	267,610	241,727
Adjustment from Fair Value to Contract Value for Fully Benefit-Responsive Investment Contracts (See Note 1)	1,326	951
Net Assets Available for Benefits	268,936	242,678

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

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Unitrin, Inc. 401(k) Savings Plan

Statement of Changes in Net Assets Available for Benefits

For the Year Ended December 31, 2006

(Dollars in Thousands)

Additions to Net Assets Attributed to:	
Employer Contributions, Net of Forfeitures of \$200	\$ 6,568
Participant Contributions	21,881
Net Appreciation in Fair Value of Investments	25,783
Dividends from Collective Trusts	2,820
Interest from Participant Loans	744
Dividends from Common Stock	927
 Total Additions to Net Assets	 58,723
Deductions From Net Assets Attributed to:	
Benefits Provided to Participants	32,054
Investment Expenses	411
 Total Deductions from Net Assets	 32,465
 Increase in Net Assets Available for Benefits	 26,258
Net Assets Available for Benefits, Beginning of the Year	242,678
 Net Assets Available for Benefits, End of the Year	 \$ 268,936

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

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UNITRIN, INC. 401(k) SAVINGS PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 1 Basis of Presentation

The financial statements of the Unitrin, Inc. 401(k) Savings Plan (the Plan) included herein have been prepared on an accrual basis under accounting principles generally accepted in the United States of America (GAAP).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ materially from those estimates. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Significant Accounting Policies

Investments, except for loans to participants, are stated at fair value. Loans to participants are stated at unpaid principal balances. The Invesco Stable Value Trust is a common collective trust which owns fully benefit-responsive investment contracts. The fair value of the Plan's investment in the Invesco Stable Value Trust is based on the reported fair value of the underlying contracts and also has been adjusted to the reported contract values (See Accounting Changes below) in the accompanying Statements of Net Assets Available for Benefits. Shares of mutual funds are valued at the net asset value of the shares held by the Plan. Fair values of common stock trusts are valued using quoted market prices of the underlying common stock.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date.

Management fees and operating expense charged to the Plan for investments in certain mutual funds are deducted from income earned and are not separately identified. Consequently, these management fees and operating expenses are recognized as reductions of investment return for such investments.

Benefits provided to participants are recorded when incurred. Account balances of participants who have elected to withdraw from the Plan, but had not been paid were \$383,715 and \$320,045 at December 31, 2006 and 2005, respectively.

Accounting Changes

As of December 31, 2006, the Plan adopted Financial Accounting Standards Board Staff Position FSP AAG INV-1 and Statement of Position No. 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP). The FSP requires the Statement of Net Assets Available for Benefits present the fair value of the Plan's investments as well as the adjustment from fair value to contract value for the fully benefit-responsive investment contracts. The Statement of Changes in Net Assets

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UNITRIN, INC. 401(k) SAVINGS PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 1 Basis of Presentation (continued)

Available for Benefits is prepared on a contract value basis for the fully benefit-responsive investment contracts. As required by the FSP, the provisions of the FSP were applied retroactively. Accordingly, the Statement of Net Assets Available for Benefits as of December 31, 2005 has been restated.

Note 2 Plan Description

The following summary description of the Plan is for general information only. A more detailed description of the Plan provisions is found in the formal Plan document and in summary materials distributed to Plan participants.

The Plan is a defined contribution plan that is available to employees of Unitrin, Inc. (Unitrin or the Company) and certain of its subsidiaries (collectively, the Companies) and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Employees of the Companies generally become eligible to participate in the Plan on the first day of the month following the employee's first full month of employment. Employees of the Companies generally become eligible to receive the Unitrin matching contribution following the employee's first full year of employment.

Subject to Internal Revenue Code (the Code) limitations, participants are allowed to defer and contribute between 1% and 60% of their compensation to the Plan. Unitrin provides a monthly matching contribution of 50% of the first 6% of compensation contributed by the participant. Participants are 100% vested in Company contributions after three years of employment. The Plan provides for 100% vesting of Company contributions in the event of a change of control as defined in the Plan.

An individual account is maintained by the Plan's record keeper for each participant and updated with contributions, actual investment income and withdrawals. Each participant may suspend, resume, or change his or her rate of contribution at any time. If certain criteria are met, participants may withdraw all or a portion of their vested account balance, subject to certain restrictions. In addition, participants may borrow from their accounts, subject to certain limitations, at prevailing interest rates as determined by the Plan administrator. Effective July 15, 2005, The Princeton Retirement Group, Inc. (PRG), a wholly owned subsidiary of Merrill Lynch & Co. (Merrill Lynch), purchased the record keeping business of the Plan's former record keeper, Amvescap Retirement, Inc. (Amvescap), and became the Plan's new record keeper. In connection with the purchase and effective December 1, 2006, Merrill Lynch Bank and Trust Company, F.S.B. (Merrill Lynch Bank) became the Plan's trustee. Prior to December 1, 2006, Amvescap National Trust Co. was the Plan's trustee.

Although the Company has not expressed any intent to terminate the Plan or to discontinue contributions, it is free to do so at any time, subject to the provisions set forth in ERISA. Should the Plan be terminated at some future date, all participants become 100% vested in benefits earned as of the Plan termination date.

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UNITRIN, INC. 401(k) SAVINGS PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 3 Investments

All investments are directed by participants and held by the Plan's trustee. At December 31, 2006 and 2005, subject to certain limitations, participants were permitted to invest in one or more of the following investments.

(i) certain investment funds sponsored by the Capital Amvescap group of companies:
Invesco Stable Value Trust

Invesco 500 Index Trust

AIM Money Market Funds, Inc.;

(ii) certain investment funds sponsored by the Janus group of companies:
Janus Small Cap Value Inv Fund

Janus Overseas Fund;

(iii) a certain investment fund sponsored by the PIMCO Funds group of companies:
PIMCO Total Return Instl Fund;

(iv) a certain investment fund sponsored by The Dreyfus Corporation group of companies:
Dreyfus Appreciation Fund, Inc.;

(v) a certain investment fund sponsored by the American Funds group of companies:
American Funds Growth Fund of America R4;

(vi) a certain investment fund sponsored by the Van Kampen group of companies:
Van Kampen Equity and Income A Fund;

(vii) a certain investment fund sponsored by the Goldman Sachs group of companies:

Goldman Sachs Mid Cap Value A Fund;

(viii) a certain investment fund sponsored by the Hotchkis and Wiley group of companies:
Hotchkis and Wiley Large Cap Value A Fund;

(ix) a certain investment fund sponsored by the Allianz Fund group of companies:
Allianz CCM Mid Cap A Fund;

(x) a certain investment fund sponsored by the Baron Assets group of companies:
Baron Small Cap Fund;

(xi) certain investment funds sponsored by the Fidelity Advisor Funds group of companies:
Fidelity Advisor Freedom Inc A

Fidelity Advisor Freedom 2010 A

Fidelity Advisor Freedom 2020 A

Fidelity Advisor Freedom 2030 A

Fidelity Advisor Freedom 2040 A; and

(xii) the Unitrin Common Stock Trust.

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Investments that represent five percent or more of the Plan's net assets at December 31, 2006 or 2005 were:

(Dollars in Thousands)

Investment	December 31,	
	2006	2005
Invesco Stable Value Trust	\$ 60,680	\$ 61,278
Janus Overseas Fund	29,081	16,314
Dreyfus Appreciation Fund, Inc.	26,966	26,757
Unitrin Common Stock Trust	26,067	23,212
Invesco 500 Index Trust	19,055	17,391
American Funds Growth Fund of America R4	18,979	16,882
Van Kampen Equity and Income A Fund	14,636	13,266
PIMCO Total Return Instl Fund	14,059	14,729
Janus Small Cap Value Inv Fund	13,348	13,447

During 2006, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year, and other fund or investment company distributions) appreciated in value as follows:

(Dollars in Thousands)

Investment	
Janus Overseas Fund	\$ 8,424
Dreyfus Appreciation Fund, Inc.	3,920
Unitrin Common Stock Trust	2,738
Invesco 500 Index Trust	2,608
American Funds Growth Fund of America R4	1,889
Van Kampen Equity and Income A Fund	1,625
Janus Small Cap Value Inv Fund	1,516
Hotchkis and Wiley Large Cap Value A Fund	1,370
PIMCO Total Return Instl Fund	525
Goldman Sachs Mid Cap Value A Fund	410
Allianz CCM Mid Cap A Fund	388
Fidelity Advisor Freedom 2020 A	130
Baron Small Cap Fund	101
Fidelity Advisor Freedom 2010 A	48
Fidelity Advisor Freedom 2030 A	43
Fidelity Advisor Freedom 2040 A	42
Fidelity Advisor Freedom Inc A	6

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Net Appreciation in Fair Value of Investments

\$ 25,783

Additional information concerning the above listed investments is contained in the prospectuses and financial statements of the funds.

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UNITRIN, INC. 401(k) SAVINGS PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 4 Federal Income Tax Status

The Plan is exempt from income taxes under Section 401(a) of the Code. The Plan obtained a favorable determination letter dated October 29, 2002 from the Internal Revenue Service (the "IRS"). Subsequent to the receipt of the determination letter, the Plan was amended. The Company believes that the Plan is currently designed and operated in compliance with the applicable requirements of the Code and the Plan and related trust continue to be exempt from income taxes. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Under Federal income tax statutes, regulations and interpretations, income taxes on amounts that a participant accumulates in the Plan are deferred and therefore not included in the participant's taxable income until those amounts are actually distributed. Except for certain contributions made prior to April 1, 1993, contributions are considered pre-tax deposits and are not subject to Federal income taxes at the time of contribution. Prior to April 1, 1993, certain contributions were made on an after-tax basis and are not subject to income tax when they are distributed to the participant because they have already been taxed. A participant's account balance, except for after-tax contributions made prior to April 1, 1993, is taxable income and generally is taxed at ordinary income tax rates when distributed. However, favorable tax treatment through special averaging provisions may apply to participants of a certain age. An additional 10 percent Federal income tax penalty may be imposed on all taxable income distributed to a participant unless the distribution meets certain requirements contained within Section 72 of the Code.

Taxable distributions from the Plan generally are subject to a 20 percent Federal income tax withholding unless directly rolled over into another eligible employer plan or Individual Retirement Account. Distributions of Unitrin common stock generally are not subject to the 20 percent withholding, and special tax rules may apply to the calculation of net unrealized appreciation on such stock.

If the Code and the Plan's requirements concerning loans to participants are satisfied, the amounts of the loans will not be treated as a taxable distribution. If, however, the loan requirements are not satisfied and a default occurs, the loans will be treated as distributions from the Plan for Federal income tax purposes, and the tax consequences discussed above for distributions may apply. Interest payments made on the loans are generally not tax deductible.

Note 5 Related Parties

Participants are permitted to invest in certain investment funds sponsored by the Capital Amvescap group of companies. The Plan's former trustee and former record keeper are affiliates of the Capital Amvescap group of companies.

One of Unitrin's directors, Mr. Fayeze Sarofim, is the Chairman of the Board, President and majority shareholder of Fayeze Sarofim & Co. ("FS&C"), a registered investment advisory firm. FS&C is a sub-investment adviser of the Dreyfus Appreciation Fund, Inc., which is an investment option in the Plan.

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UNITRIN, INC. 401(k) SAVINGS PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 5 Related Parties (continued)

At December 31, 2006 and 2005, Plan assets included 520,188 shares and 515,175 shares of Unitrin common stock, respectively, at aggregate fair values of \$26.1 million and \$23.2 million, respectively. For the years ended December 31, 2006 and 2005, the Plan recorded dividends of \$0.9 million and \$0.9 million, respectively, from participants' investments in the Unitrin Common Stock Trust.

Note 6 Nonexempt Transactions

The Company did not remit certain participant contributions totaling \$15,124 in 2006 within the timeframe required by Department of Labor Regulation 2510.3-102. The Company will file Form 5330 with the Internal Revenue Service and pay the required excise tax on the transaction. In addition, participant accounts were credited with the amount of investment income that would have been earned had the participant contributions been remitted on a timely basis.

Note 7 Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	December 31, 2006
(Dollars in Thousands)	
Net Assets Available for Benefits per the Financial Statements	\$ 268,936
Less: Adjustment from Contract Value to Fair Value for Fully Benefit-Responsive Investment Contracts	(1,326)
Total Assets per the 5500	\$ 267,610

The following is a reconciliation of Total Additions to Net Assets per the financial statements to Total Income per the Form 5500:

	December 31, 2006
(Dollars in Thousands)	
Total Additions to Net Assets per the Financial Statements	\$ 58,723
Less: Adjustment from Contract Value to Fair Value for Fully Benefit-Responsive Investment Contracts	(1,326)
Total Income per the 5500	\$ 57,397

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Unitrin, Inc. 401(k) Savings Plan

Form 5500, Schedule H, Part IV, Question 4a

Delinquent Participant Contributions

For the Year Ended December 31, 2006

EIN #: 95-4255452

PLAN #: 003

		Total That Constitute
Participant Contributions		Nonexempt Prohibited
Transferred Late to Plan		Transactions
	\$ 15,124	\$15,124

Note: The Plan sponsor corrected these contributions in 2006 outside of the Voluntary Fiduciary Correction Program. See Accompanying Report of Independent Registered Public Accounting Firm.

Table of Contents**Unitrin, Inc. 401(k) Savings Plan****Schedule of Assets (Held at End of Year)****As of December 31, 2006****(Dollars in Thousands)**

EIN #: 95-4255452

PLAN #: 003

Party-in-	Identity of Issuer, Borrower, Lessor		Current Value
interest	or Similar Party	Description of Investment	
*	Invesco Stable Value Trust	Collective Trust	\$ 60,680
	Janus Overseas Fund	Mutual Fund Shares	29,081
*	Dreyfus Appreciation Fund, Inc.	Mutual Fund Shares	26,966
*	Unitrin Common Stock Trust	Common Stock	26,067
*	Invesco 500 Index Trust	Collective Trust	19,055
	American Funds Growth Fund of America R4	Mutual Fund Shares	18,979
	Van Kampen Equity and Income A Fund	Mutual Fund Shares	14,636
	PIMCO Total Return Instl Fund	Mutual Fund Shares	14,059
	Janus Small Cap Value Inv Fund	Mutual Fund Shares	13,348
	Hotchkis and Wiley Large Cap Value A Fund	Mutual Fund Shares	11,798
	Allianz CCM Mid Cap A Fund	Mutual Fund Shares	11,108
	Goldman Sachs Mid Cap Value A Fund	Mutual Fund Shares	3,821
	Baron Small Cap Fund	Mutual Fund Shares	2,463
	Fidelity Advisor Freedom 2020 A	Mutual Fund Shares	1,480
	Fidelity Advisor Freedom 2010 A	Mutual Fund Shares	875
	Fidelity Advisor Freedom 2040 A	Mutual Fund Shares	602
	Fidelity Advisor Freedom 2030 A	Mutual Fund Shares	548
	Fidelity Advisor Freedom Inc A	Mutual Fund Shares	139
*	AIM Money Market Funds, Inc.	Mutual Fund Shares	4
*	Participants	Participant Loans (5.0% - 11.5% Maturing 2007 to 2015)	11,629
			\$ 267,338

* This party is known to be a party-in-interest to the Plan.
See Accompanying Report of Independent Registered Public Accounting Firm.

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Pursuant to the requirements of the Securities Exchange Act of 1934, Unitrin, Inc., as plan administrator of the Unitrin, Inc. 401(k) Savings Plan, has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

UNITRIN, INC. 401(k) SAVINGS PLAN

By: Unitrin, Inc.

/s/ Richard Roeske
Richard Roeske
Vice President

June 25, 2007