PROTECTIVE LIFE CORP
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2007**

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 **001-11339**

Protective Life Corporation
(Exact name of registrant as specified in its charter)

Delaware	**95-2492236**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2801 Highway 280 South
Birmingham, Alabama 35223
(Address of principal executive offices and zip code)

(205) 268-1000
(Registrant's telephone number, including area code)

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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the

Exchange Act. (Check one):

Large accelerated filer **ý** Accelerated Filer o Non-accelerated filer o

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

Number of shares of Common Stock, $0.50 par value, outstanding as of May 9, 2007: 70,072,942

PROTECTIVE LIFE CORPORATION
Quarterly Report on Form 10-Q
For Quarter Ended March 31, 2007

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Dollars in thousands except per share amounts)
(Unaudited)

	Three Months Ended March 31	
	2007	**2006**
Revenues		
Premiums and policy fees	$ 660,824	$ 507,694
Reinsurance ceded	(370,997)	(280,670)
Net of reinsurance ceded	289,827	227,024
Net investment income	415,682	299,065
Realized investment gains (losses):		
Derivative financial instruments	(2,291)	13,337
All other investments	13,294	5,153
Other income	76,263	48,536
Total revenues	792,775	593,115
Benefits and expenses		
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2007 - $292,899; 2006 - $256,558)	472,770	349,608
Amortization of deferred policy acquisition costs and value of businesses acquired	75,202	50,031
Other operating expenses, net of reinsurance ceded: (three months: 2007 - $65,303; 2006 - $46,291)	111,475	82,819
Total benefits and expenses	659,447	482,458
Income before income tax	133,328	110,657
Income tax expense	42,745	38,520
Net income	$ 90,583	$ 72,137
Net income per share - basic	$ 1.28	$ 1.02
Net income per share - diluted	$ 1.27	$ 1.01
Cash dividends paid per share	$ 0.215	$ 0.195
Average shares outstanding - basic	70,017,662	70,752,202
Average shares outstanding - diluted	71,487,063	71,559,255

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	March 31 2007	December 31 2006
Assets		
Investments:		
Fixed maturities, at fair market value (amortized cost: 2007 - $21,393,317; 2006 - $21,194,871)	$ 21,570,487	$ 21,367,263
Equity securities, at fair market value (cost: 2007 - $65,626; 2006 - $121,823)	69,211	128,695
Mortgage loans	4,025,025	3,880,028
Investment real estate, net of accumulated depreciation (2007 - $5,606; 2006 - $5,483)	38,828	38,918
Policy loans	822,930	839,502
Other long-term investments	167,571	310,225
Short-term investments	1,064,768	1,381,073
Total investments	27,758,820	27,945,704
Cash	120,190	69,516
Accrued investment income	265,772	284,529
Accounts and premiums receivable, net of allowance for uncollectible amounts (2007 - $4,268; 2006 - $4,140)	121,051	194,447
Reinsurance receivables	4,780,956	4,618,122
Deferred policy acquisition costs and value of businesses acquired	3,212,048	3,198,735
Goodwill	100,318	100,479
Property and equipment, net of accumulated depreciation (2007 - $106,116; 2006 - $109,718)	42,245	43,796
Other assets	163,543	165,656
Income tax receivable	116,684	116,318
Assets related to separate accounts		
Variable annuity	2,790,233	2,750,129
Variable universal life	319,972	307,863
Total assets	$ 39,791,832	$ 39,795,294
Liabilities		
Policy liabilities and accruals	$ 16,305,821	$ 16,059,930
Stable value product account balances	5,055,382	5,513,464
Annuity account balances	8,966,309	8,958,089
Other policyholders' funds	323,898	328,664
Securities sold under repurchase agreements	2,844	16,949
Other liabilities	1,240,616	1,323,375
Deferred income taxes	429,481	374,486
Non-recourse funding obligations	525,000	425,000
Liabilities related to variable interest entities	421,684	420,395
Long-term debt	466,532	479,132
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	2,790,233	2,750,129
Variable universal life	319,972	307,863
Total liabilities	37,372,515	37,482,219

Commitments and contingent liabilities - Note 3		
Share-owners' equity		
Preferred Stock, $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2007 and 2006 -160,000,000		
shares issued: 2007 and 2006 - 73,251,960	36,626	36,626
Additional paid-in capital	440,813	438,485
Treasury stock, at cost (2007 - 3,195,069 shares; 2006 - 3,287,312 shares)	(11,468)	(11,796)
Unallocated stock in Employee Stock Ownership Plan		
(2007 - 262,682 shares; 2006 - 366,243 shares)	(853)	(1,231)
Retained earnings	1,916,245	1,838,560
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax:		
(2007 - $35,463; 2006 - $22,109)	64,674	41,405
Accumulated gain (loss) - hedging, net of income tax: (2007 - $(2,046); 2006 - $(3,179))	(3,700)	(5,954)
Postretirement benefits liability adjustment, net of income tax: (2007 - $(12,292); 2006 - $(12,292))	(23,020)	(23,020)
Total share-owners' equity	2,419,317	2,313,075
	$ 39,791,832	$ 39,795,294

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 2007	Three Months Ended March 2006
Cash flows from operating activities		
Net income	$ 90,583	$ 72,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses	(11,003)	(5,153)
Amortization of deferred policy acquisition costs and value of businesses acquired	75,202	50,031
Capitalization of deferred policy acquisition costs	(120,762)	(97,740)
Depreciation expense	3,023	3,349
Deferred income tax	43,166	40,278
Accrued income tax	(179)	(14,353)
Interest credited to universal life and investment products	254,930	189,714
Policy fees assessed on universal life and investment products	(139,408)	(119,662)
Change in reinsurance receivables	(162,834)	(125,759)
Change in accrued investment income and other receivables	92,153	13,174
Change in policy liabilities and other policyholders' funds of traditional life and health products	73,525	142,632
Trading securities:		
Maturities and principal reductions of investments	104,301	0
Sale of investments	406,347	0
Cost of investments acquired	(647,243)	0
Other net change in trading securities	85,820	7,294
Change in other liabilities	78,413	(53,336)
Other, net	5,451	(11,616)
Net cash provided by operating activities	231,485	90,990
Cash flows from investing activities		
Investments available for sale:		
Maturities and principal reductions of investments		
Fixed maturities	393,595	265,542
Equity securities	2,000	0
Sale of investments		
Fixed maturities	990,203	2,076,761
Equity securities	60,117	1,858
Cost of investments acquired		
Fixed maturities	(1,379,879)	(2,180,522)
Equity securities	(537)	(1,706)
Mortgage loans:		
New borrowings	(239,785)	(262,617)
Repayments	94,635	141,448
Change in investment real estate, net	3,298	15,736
Change in policy loans, net	16,572	2,678
Change in other long-term investments, net	(1,144)	18,420
Change in short-term investments, net	164,799	(70,500)
Purchase of property and equipment	(2,145)	(1,093)

Sales of property and equipment		640		0
Other investing activities, net		161		0
Net cash provided by investing activities		102,530		6,005
Cash flows from financing activities				
Borrowings under line of credit arrangements and long-term debt		31,000		13,000
Principal payments on line of credit arrangement and long-term debt		(43,600)		(22,500)
Net proceeds from securities sold under repurchase agreements		(14,105)		0
Payments on liabilities related to variable interest entities		1,289		(5,710)
Issuance of non-recourse funding obligations		100,000		25,000
Dividends to share owners		(15,044)		(13,620)
Investment product deposits and change in universal life deposits		543,512		486,646
Investment product withdrawals		(837,199)		(629,139)
Excess tax benefits on stock based compensation		762		2,403
Other financing activities, net		(49,956)		373
Net cash used in financing activities		(283,341)		(143,547)
Change in cash		50,674		(46,552)
Cash at beginning of period		69,516		83,670
Cash at end of period	$	120,190	$	37,118

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)
(Dollar amounts in tables are in thousands, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three-month periods ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. The year-end consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

New Accounting Pronouncements

Statement of Position 05-1. Effective January 1, 2007, the Company adopted Statement of Position ("SOP") 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards ("SFAS") No. 97 ("SFAS 97"), "Accounting and Reporting by Insurance Enterprises for Certain Long- Duration Contracts and for Realized Gains and Losses from the Sale of Investments." SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. Contract modifications that result in a substantially unchanged contract will be accounted for as a continuation of the replaced contract. Contract modifications that result in a substantially changed contract should be accounted for as an extinguishment of the replaced contract, and any unamortized DAC, unearned revenue and deferred sales charges must be written off. The Company recorded no cumulative effect adjustment related to this adoption and does not expect it to have a material impact on its ongoing financial position or results of operations.

SFAS No. 155 - Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140. Effective January 1, 2007, the Company adopted SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of Financial Accounting Standards Board ("FASB") Statements No. 133 and 140" ("SFAS 155"). SFAS 155 (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only (IO) strips and principal-only (PO) strips are not subject to the requirements of FAS 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The adoption of SFAS 155 resulted in a positive cumulative effect adjustment to opening retained earnings of approximately $2.0 million ($1.3 million net of taxes), related to the Company's equity indexed annuity product line.

FASB Interpretation No. 48. Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition, measurement and disclosure of an income tax position taken or expected to be taken in an income tax return. Additionally, this interpretation requires, in order for the Company to recognize a benefit in its financial statements from a given tax return position, that there must be a greater than 50 percent chance of success with the relevant taxing authority with regard to that tax return position. In making this analysis, the Company must assume that the taxing authority is fully informed of all of the facts regarding this issue. Furthermore, new disclosures regarding the effect of the accounting for uncertain tax positions on the financial statements will be required.

As a result of the implementation of FIN 48, the Company recognized a $0.9 million decrease in the liability for unrecognized income tax benefits, which was accounted for as an increase to the January 1, 2007 retained earnings balance. The Company's liability for all unrecognized income tax benefits as of January 1, 2007 was $23.9 million. If recognized, approximately $3.2 million would be recorded as a component of income tax expense.

Any accrued interest and penalties related to unrecognized tax benefits have been included in income tax expense. The Company had approximately $5.9 million of accrued interest associated with unrecognized tax benefits as of January 1, 2007.

There were no significant changes to any of these amounts during the quarter ending March 31, 2007. The Company's 2003 through 2005 income tax returns remain open to examination by the Internal Revenue Service and major state income taxing jurisdictions.

Accounting Pronouncements Not Yet Adopted

SFAS No. 157 - Fair Value Measurements. In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective prospectively with a limited form of retrospective application for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company). The Company is currently evaluating the impact that SFAS 157 will have on its consolidated results of operations and financial position.

SFAS No. 159 - The Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits entities to choose to measure eligible financial assets and financial liabilities at fair value. SFAS 159 is effective for the Company beginning January 1, 2008. The Company has not yet made a decision as to whether or not it will elect the fair value option for any financial assets or financial liabilities. As a result, the Company does not know what impact, if any, that SFAS 159 will have on its consolidated results of operations and financial position.

Reclassifications

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior period amounts comparable to those of the current period. Such reclassifications had no effect on previously reported net income or share-owners' equity. Included in these reclassifications is a change in the Consolidated Condensed Statement of Cash Flows to remove the effects of policy fees assessed on universal life and investment products from financing activities. While this had no effect on total cash flow, for the three months ended

March 31, 2006, net cash provided by operating activities was decreased and net cash provided by financing activities was increased by $119.7 million.

2. NON-RECOURSE FUNDING OBLIGATIONS

Non-Recourse Funding Obligations

The Company issued $100.0 million of non-recourse funding obligations during the first three months of 2007, bringing the total amount outstanding to $525.0 million at March 31, 2007. The weighted average interest rate as of March 31, 2007, was 6.8%.

3. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is contingently liable to obtain a $20 million letter of credit under indemnity agreements with its directors. Such agreements provide insurance protection in excess of the directors' liability insurance in force at the time up to $20 million. Should certain events occur constituting a change in control of the Company, the Company must obtain the letter of credit upon which directors may draw for defense or settlement of any claim relating to performance of their duties as directors. The Company has similar agreements with certain of its officers providing up to $10 million in indemnification that are not secured by the obligation to obtain a letter of credit.

Under insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. The Company does not believe such assessments will be materially different from amounts already provided for in the financial statements. Most of these laws provide, however, that an assessment may be excused or deferred if it would threaten an insurer's own financial strength.

A number of civil jury verdicts have been returned against insurers and other providers of financial services involving sales practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Increasingly these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive and non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. The Company, like other financial services companies, in the ordinary course of business, is involved in such litigation and in arbitration. Although the outcome of any such litigation or arbitration cannot be predicted, the Company believes that at the present time there are no pending or threatened lawsuits that are reasonably likely to have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

4. STOCK-BASED COMPENSATION

Performance shares awarded in 2007 and their estimated fair value at grant date are as follows:

Year Awarded	Performance Shares	Estimated Fair Value
2007	64,700	$2,800

The criteria for payment of 2007 performance awards is based primarily upon a comparison of the Company's average return on average equity over a four-year period (earlier upon the death, disability, or retirement of the executive, or in certain circumstances, upon a change in control of the Company) to that of a comparison group of publicly held life and multi-line insurance companies. If the Company's results are below the median of the comparison group (40^{th} percentile for 2007 awards), no portion of the award is earned. If the Company's results are at or above the 90^{th} percentile, the award maximum is earned. Awards are paid in shares of Company Common Stock.

During the first quarter of 2007, stock appreciation rights ("SARs") were granted to certain officers of the Company to provide long-term incentive compensation based solely on the performance of the Company's Common Stock. The SARs are exercisable either in four equal annual installments beginning one year after the date of grant or after five years depending on the terms of the grant (earlier upon the death, disability, or retirement of the officer, or in certain circumstances, upon a change in control of the Company) and expire after ten years or upon termination of employment. The SARs activity as well as weighted average base price for the first three months of 2007 is as follows:

		Weighted Average Base Price	No. of SARs
Balance at December 31, 2006	$	29.33	1,155,946
SARs granted		43.46	218,900
SARs exercised		23.98	(2,500)
Balance at March 31, 2007	$	31.59	1,372,346

The SARs issued in 2007 had estimated fair values at grant date of $2.4 million. The fair value of the 2007 SARs was estimated using a Black-Scholes option pricing model. The assumptions used in the pricing model varied depending on the vesting period of the awards. Assumptions used in the model for the 2007 SARs were as follows: expected volatility ranged from 16.2% to 31.0%, the risk-free interest rate ranged from 4.5% to 4.6%, a dividend rate of 1.9%, a zero forfeiture rate, and the expected exercise date ranged from 2012 to 2015. The Company will pay an amount in stock equal to the difference between the specified base price of the Company's Common Stock and the market value at the exercise date for each SAR.

Additionally during 2007, the Company issued 30,250 restricted stock units at a fair value of $43.46 per unit. These awards, with a total fair value of $1.3 million, vest over a four year period.

5. DEFINED BENEFIT PENSION PLAN AND UNFUNDED EXCESS BENEFITS PLAN

Components of the net periodic benefit cost of the Company's defined benefit pension plan and unfunded excess benefits plan are as follows:

Three Months Ended March 31

		2007		2006
Service cost - Benefits earned during the period	$	2,625	$	2,576
Interest cost on projected benefit obligations		2,540		2,496
Expected return on plan assets		(2,893)		(3,096)
Amortization of prior service cost		53		64
Amortization of actuarial losses		849		1,272
Net periodic benefit cost	$	3,174	$	3,312

The Company previously disclosed in its financial statements for the year ended December 31, 2006, that it expected that no funding would be required in 2007. The Company has not yet determined the amount, if any, that it will contribute to its defined benefit pension plan during 2007. As of March 31, 2007, no contributions have been made to the defined benefit pension plan.

In addition to pension benefits, the Company provides limited healthcare benefits and life insurance benefits to eligible retirees. The cost of these plans for the three months ended March 31, 2007 and 2006 was immaterial.

6. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period, including shares issuable under various deferred compensation plans. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares and dilutive potential common shares outstanding during the period, including shares issuable under various stock-based compensation plans and stock purchase contracts.

A reconciliation of the numerators and denominators of the basic and diluted earnings per share is presented below:

	Three Months Ended March 31			
		2007		2006
Calculation of basic earnings per share:				
Net income	$	90,583	$	72,137
Average shares issued and outstanding		69,996,445		69,793,369
Issuable under various deferred compensation plans		1,021,217		958,833
Weighted shares outstanding - Basic		71,017,662		70,752,202
Basic earnings per share	$	1.28	$	1.02
Calculation of diluted earnings per share:				
Net income	$	90,583	$	72,137
Weighted shares outstanding - Basic		71,017,662		70,752,202
Stock appreciation rights (“SARs”)[(a)]		264,585		316,254
Issuable under various other stock-back compensation plans		204,816		490,799
Weighted shares outstanding - Diluted		71,487,063		71,559,255

Diluted earnings per share	$	1.27	$	1.01

[a] Excludes 166,820 and 155,200 SARs as of March 31, 2007 and 2006, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company's earnings per share and will be included in the Company's calculation of the diluted average shares outstanding.

7. COMPREHENSIVE INCOME

The following table sets forth the Company's comprehensive income (loss) for the periods presented below:

	Three Months Ended March 31			
		2007		2006
Net income	$	90,583	$	72,137
Change in net unrealized gains on investments, net of income tax: (three months: 2007 - $16,330; 2006 - $(78,279))		29,782		(147,425)
Change in accumulated gain-hedging, net of income tax: (three months: 2007 - $1,247; 2006 - $2,285)		2,254		4,303
Reclassification adjustment for amounts included in net income, net of income tax: (three months: 2007 - $(3,571); 2006 - $1,419)		(6,513)		2,660
Comprehensive income (loss)	$	116,106	$	(68,325)

8. OPERATING SEGMENTS

The Company operates several business segments each having a strategic focus. An operating segment is generally distinguished by products and/or channels of distribution. A brief description of each segment follows:

- The Life Marketing segment markets level premium term insurance ("traditional"), universal life ("UL"), variable universal life, and bank owned life insurance ("BOLI") products on a national basis primarily through networks of independent insurance agents and brokers, stockbrokers, direct marketing channels, and independent marketing organizations.

- The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment's primary focus is on life insurance policies and annuity products that were sold to individuals.

- The Annuities segment manufactures, sells, and supports fixed and variable annuity products. These products are primarily sold through stockbrokers, but are also sold through financial institutions and independent agents and brokers.

- The Stable Value Products segment sells guaranteed funding agreements ("GFAs") to special purpose entities that in turn issue notes or certificates in smaller, transferable denominations. The segment also markets fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, institutional investors, bank trust departments, and money market funds. Additionally, the segment markets guaranteed investment contracts ("GICs") to 401(k) and other qualified retirement savings plans.

- The Asset Protection segment primarily markets extended service contracts and credit life and disability insurance to protect consumers' investments in automobiles, watercraft, and recreational vehicles ("RV"). In addition, the segment markets an inventory protection product ("IPP") and a guaranteed asset protection ("GAP") product.

The Company has an additional segment referred to as Corporate and Other. The Corporate and Other segment primarily consists of net investment income and expenses not attributable to the segments above (including net investment income on unallocated capital and interest on debt). This segment also includes earnings from several non-stra