PROTECTIVE LIFE CORP
Form 10-Q
November 06, 2009
Table of Contents

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 September 30, 2009

or

o **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 Number)

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 o

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 o No o

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

Large accelerated filer **x**	Accelerated Filer o
Non-accelerated filer o	Smaller Reporting Company o

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

Number of shares of Common Stock, $0.50 Par Value, outstanding as of November 4, 2009: 85,580,166

Table of Contents

PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	For The Three Months Ended September 30, 2009	For The Three Months Ended September 30, 2008	For The Nine Months Ended September 30, 2009	For The Nine Months Ended September 30, 2008
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	$ 652,497	$ 664,464	$ 1,991,638	$ 2,005,741
Reinsurance ceded	(351,664)	(366,734)	(1,104,188)	(1,161,580)
Net of reinsurance ceded	300,833	297,730	887,450	844,161
Net investment income	409,956	423,522	1,262,785	1,270,928
Realized investment gains (losses):				
Derivative financial instruments	(195,540)	91,991	(201,098)	155,421
All other investments	165,576	(148,458)	291,532	(208,928)
Other-than-temporary impairment losses	(14,873)	(202,644)	(181,064)	(282,630)
Portion of loss recognized in other comprehensive income (before taxes)	(16,095)		19,299	
Net impairment losses recognized in earnings	(30,968)	(202,644)	(161,765)	(282,630)
Other income	41,222	47,943	119,471	141,435
Total revenues	691,079	510,084	2,198,375	1,920,387
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2009 - $308,979; 2008 - $309,675; nine months: 2009 - $1,014,907; 2008 - $1,084,504)	521,218	535,839	1,503,725	1,500,859
Amortization of deferred policy acquisition costs and value of business acquired	47,240	39,331	250,837	179,151
Other operating expenses, net of reinsurance ceded: (three months: 2009 - $54,791; 2008 - $51,584; nine months: 2009 - $161,819; 2008 - $160,252)	80,985	94,856	229,803	289,251
Total benefits and expenses	649,443	670,026	1,984,365	1,969,261
Income (loss) before income tax	41,636	(159,942)	214,010	(48,874)
Income tax expense (benefit)	14,051	(59,934)	73,533	(22,932)
Net income (loss)	$ 27,585	$ (100,008)	$ 140,477	$ (25,942)
Net income (loss) per share - basic	$ 0.32	$ (1.41)	$ 1.79	$ (0.36)
Net income (loss) per share - diluted	$ 0.32	$ (1.41)	$ 1.77	$ (0.36)
Cash dividends paid per share	$ 0.12	$ 0.235	$ 0.36	$ 0.695
Average shares outstanding - basic	86,481,240	71,115,365	78,465,685	71,104,383
Average shares outstanding - diluted	87,372,659	71,115,365	79,156,305	71,104,383

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	As of	
	September 30, 2009	**December 31, 2008**
	(Dollars In Thousands)	
Assets		
Investments:		
Fixed maturities, at fair market value (amortized cost: 2009 - $23,029,934; 2008 - $23,091,708)	$ 22,560,159	$ 20,098,980
Equity securities, at fair market value (cost: 2009 - $277,128; 2008 - $358,159)	270,057	302,132
Mortgage loans	3,849,349	3,848,288
Investment real estate, net of accumulated depreciation (2009 - $549; 2008 - $453)	19,651	14,810
Policy loans	788,402	810,933
Other long-term investments	232,927	432,137
Short-term investments	1,076,621	1,059,506
Total investments	28,797,166	26,566,786
Cash	225,302	149,358
Accrued investment income	283,559	287,543
Accounts and premiums receivable, net of allowance for uncollectible amounts (2009 - $5,277; 2008 - $5,177)	113,847	55,017
Reinsurance receivables	5,336,371	5,254,788
Deferred policy acquisition costs and value of business acquired	3,660,267	4,200,321
Goodwill	118,630	120,954
Property and equipment, net of accumulated depreciation (2009 - $121,957; 2008 - $117,948)	38,031	39,707
Other assets	172,002	174,035
Income tax receivable	47,358	73,457
Deferred income tax		380,069
Assets related to separate accounts		
Variable annuity	2,694,715	2,027,470
Variable universal life	300,358	242,944
Total assets	$ 41,787,606	$ 39,572,449
Liabilities		
Policy liabilities and accruals	$ 18,451,979	$ 18,260,379
Stable value product account balances	3,863,329	4,960,405
Annuity account balances	9,726,082	9,357,427
Other policyholders funds	491,216	421,313
Other liabilities	852,449	926,821
Deferred income taxes	400,084	
Non-recourse funding obligations	1,375,000	1,375,000
Long-term debt	804,852	714,852
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	2,694,715	2,027,470
Variable universal life	300,358	242,944
Total liabilities	39,484,807	38,811,354
Commitments and contingencies - Note 4		
Shareowners equity		
Preferred Stock; $1 par value, shares authorized: 4,000,000; Issued: None		

Common Stock, $0.50 par value, shares authorized: 2009 and 2008 - 160,000,000 shares issued: 2009 - 88,776,960; 2008 - 73,251,960		44,388		36,626
Additional paid-in-capital		575,915		448,481
Treasury stock, at cost (2009 - 3,197,090 shares; 2008 - 3,346,153 shares)		(25,936)		(26,978)
Unallocated stock in Employee Stock Ownership Plan (2009 - 0 shares ; 2008 - 128,995 shares)				(474)
Retained earnings		2,083,904		1,970,496
Accumulated other comprehensive income (loss):				
Net unrealized losses on investments, net of income tax: (2009 - $(158,849); 2008 - $(863,520))		(293,112)		(1,575,028)
Net unrealized losses gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2009 - $(6,755); 2008 - $0)		(12,544)		
Accumulated loss - hedging, net of income tax: (2009 - $(14,189); 2008 - $(25,980))		(25,539)		(46,762)
Postretirement benefits liability adjustment, net of income tax: (2009 - $(23,841); 2008 - $(24,374))		(44,277)		(45,266)
Total shareowners equity		2,302,799		761,095
Total liabilities and shareowners equity	$	41,787,606	$	39,572,449

See Notes to Consolidated Condensed Financial Statements

4

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Nine Months Ended September 30, 2009	2008
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income (loss)	$ 140,477	$ (25,942)
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses	71,331	336,137
Amortization of deferred policy acquisition costs and value of business acquired	250,837	179,151
Capitalization of deferred policy acquisition costs	(316,914)	(294,154)
Depreciation expense	5,928	7,667
Deferred income tax	(48,926)	69,252
Accrued income tax	25,077	10,775
Interest credited to universal life and investment products	749,552	773,877
Policy fees assessed on universal life and investment products	(441,410)	(419,384)
Change in reinsurance receivables	(81,583)	(137,920)
Change in accrued investment income and other receivables	(54,846)	(91,785)
Change in policy liabilities and other policyholders funds of traditional life and health products	170,502	300,800
Trading securities:		
Maturities and principal reductions of investments	446,993	358,437
Sale of investments	595,676	956,257
Cost of investments acquired	(587,057)	(995,657)
Other net change in trading securities	(152,691)	(83,440)
Change in other liabilities	(10,104)	(107,668)
Other, net	9,882	(176,217)
Net cash provided by operating activities	772,724	660,186
Cash flows from investing activities		
Investments available-for-sale:		
Maturities and principal reductions of investments	2,003,690	1,588,245
Sales of investments	1,250,831	2,520,126
Cost of investments acquired	(3,304,310)	(5,573,114)
Mortgage loans:		
New borrowings	(203,490)	(640,186)
Repayments	199,271	269,864
Change in investment real estate, net	(3,347)	456
Change in policy loans, net	22,531	6,434
Change in other long-term investments, net	(6,896)	17,278
Change in short-term investments, net	118,993	63,391
Purchases of property and equipment	(5,989)	(4,192)
Sales of property and equipment		787
Net cash provided by (used in) investing activities	71,284	(1,750,911)
Cash flows from financing activities		
Borrowings under line of credit arrangements and long-term debt	212,000	90,000
Principal payments on line of credit arrangements and long-term debt	(122,000)	
Net proceeds from securities sold under repurchase agreements		
Payments on liabilities related to variable interest entities		(400,000)

Dividends to shareowners		(27,069)		(48,620)
Issuance of common stock		132,575		
Investment product deposits and change in universal life deposits		1,956,715		4,066,785
Investment product withdrawals		(2,902,277)		(2,647,740)
Other financing activities, net		(18,008)		(29,265)
Net cash (used in) provided by financing activities		(768,064)		1,031,160
Change in cash		75,944		(59,565)
Cash at beginning of period		149,358		146,152
Cash at end of period	$	225,302	$	86,587

See Notes to Consolidated Condensed Financial Statements

5

Table of Contents

PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION AND 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 and nine month periods ended September 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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, 2008.

Accounting Pronouncements Recently Adopted

Accounting Standard Update (ASU) No. 2009-01 Generally Accepted Accounting Principles and Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 168). In June of 2009, the FASB issued SFAS No. 168 (effective July 1, 2009) to replace FASB Statement No. 162**,** *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162) and authorize the Accounting Standard Codification (ASC or Codification) as the new source for authoritative U.S. GAAP and ends the practice of FASB issuing standards in the familiar forms. On July 1, 2009, the FASB implemented the ASC as the authoritative source, along with SEC guidance, for U.S. GAAP through issuance of Accounting Standards Update (ASU or Update) 2009-01. The FASB will no longer issue Statements of Financial Accounting Standards, but rather will issue Updates that will provide background information about the amended guidance along with a basis for conclusions regarding the change. These Updates will amend the ASC to reflect the new guidance issued by the FASB. The Company implemented the use of the ASC in the third quarter of 2009. The ASC changed the way the Company will reference authoritative accounting literature in its filings. The recently adopted standards are now part of the ASC. Accounting standards not yet adopted will consist of Updates as well as Statements issued before July 1, 2009, that are not yet effective.

ASU No. 2009-05 Fair Value Measurements and Disclosures Measuring Liabilities at Fair Value. In August of 2009, FASB issued ASU No. 2009-05 - Fair Value Measurements and Disclosures Measuring Liabilities at Fair Value. This Update provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures, for the fair value measurement of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1) a valuation technique that uses the quoted price of the identical liability when traded as an asset and/or quoted prices for similar liabilities when traded as assets; 2) another valuation technique that is consistent with the principles of

Topic 820. This Update is effective for the Company on September 30, 2009. This Update did not have a material impact on the Company s consolidated results of operations or financial position.

ASU No. 2009-06 Income Taxes - Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities. In September of 2009, FASB issued ASU No. 2009-06 Income Taxes Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities. This Update provides implementation guidance related to uncertainty in income tax reporting. This Update is effective for the Company on September 30, 2009. Based on our initial review of the Update, no changes in current practice are required. This update did not have an impact on the Company s consolidated results of operations or financial position.

Table of Contents

In December of 2007, the FASB revised the authoritative guidance for business combinations, which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This guidance impacts the annual goodwill impairment test associated with acquisitions that close both before and after the effective date. This guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this guidance did not have an impact to the Company s consolidated results of operations or financial position. The Company will apply this guidance as reflected in the ASC to future business combinations.

In December of 2007, the FASB issued guidance that applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This guidance was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that was, January 1, 2009, for entities with calendar year-ends). The adoption of this guidance did not have an impact on the Company s consolidated results of operations or financial position.

In March of 2008, the FASB issued guidance that requires enhanced disclosures about how and why an entity uses derivative instruments and how derivative instruments and related hedged items are accounted for under the ASC Derivatives and Hedging Topic. This guidance was effective for fiscal years and interim periods beginning after November 15, 2008. This guidance did not require any changes to current accounting. The Company adopted this guidance on January 1, 2009.

In February of 2008, the FASB issued guidance on accounting for a transfer of a financial asset and a repurchase financing, which is not directly addressed by U.S. GAAP. This guidance was effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The guidance became effective for the Company on January 1, 2009. The Company will apply this guidance to future transfers of financial assets and repurchase financing transactions.

In April of 2008, the FASB issued guidance to improve consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This guidance was effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance became effective for the Company on January 1, 2009. The adoption of this guidance did not have a significant impact on the Company s consolidated results of operations or financial position.

In May of 2008, the FASB issued guidance that requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This guidance also clarifies U.S. GAAP related to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. This guidance does not apply to financial guarantee insurance contracts that would be within the scope of the ASC Derivatives and Hedging Topic. This guidance was effective for fiscal years and interim periods beginning after December 15, 2008. The guidance became effective for the Company on January 1, 2009. The adoption of this guidance did not have an impact on the Company s consolidated results of operations or financial position.

In June of 2008, the FASB issued guidance that addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method. The guidance became effective for financial statements issued for fiscal years and interim periods beginning January 1, 2009.

All prior period EPS data presented has been adjusted retrospectively to conform to the provisions of this guidance. The adoption of this guidance did not have an impact on the Company s consolidated results of operations or financial position.

In April of 2009, the FASB issued guidance to provide additional information for estimating fair value in accordance with Fair Value Measurements, located within Fair Value Measurements and Disclosures Topic of the ASC, when the volume and level of activity for the asset or liability have significantly decreased. This guidance also includes information on identifying circumstances which indicate that a transaction is not orderly. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company elected to early adopt the guidance in the first quarter of 2009. Adoption of the guidance did not have a significant impact on the Company s consolidated results of operations or financial position.

In April of 2009, the FASB issued guidance to amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments of debt and equity securities in the financial statements. This guidance addresses the timing of impairment recognition and provides greater clarity to investors about the credit and non-credit components of impaired debt securities that are not expected to be sold. Impairments will continue to be measured at fair value with credit losses recognized in earnings and non-credit losses recognized in other comprehensive income. This guidance also requires increased and timelier disclosures regarding measurement techniques, credit losses, and an aging of securities with unrealized losses. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company elected to early adopt the guidance in the first quarter of 2009, and recorded total other-than-temporary impairments during the three months ended March 31, 2009, of approximately $117.3 million with $27.5 million of this amount recorded in other comprehensive income. The impact of recording a portion of the other-than-temporary impairments in other comprehensive income resulted in an increase in net income of $17.9 million or $0.25 per share for the three months ended March 31, 2009. The adoption of the guidance did not require a cumulative effect adjustment to retained earnings at January 1, 2009, since all other-than-temporary impairments recorded by the Company in prior periods were credit related losses.

In April of 2009, the FASB issued guidance to address concerns for more transparent and timely information in financial reporting by requiring quarterly disclosures about fair value of financial instruments. The guidance relates to fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value. This guidance requires qualitative and quantitative information about fair value estimates for all financial instruments not measured at fair value. This guidance became effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this guidance in the second quarter of 2009. The adoption of this guidance did not have an impact on the Company s consolidated results of operations or financial position.

In May of 2009, the FASB issued guidance that establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, it provides guidance on the circumstances that require entities to recognize events or transactions that occur after the balance sheet date and the types of disclosures that need to be made about them. This guidance is effective for interim or annual reporting periods ending after June 15, 2009. The guidance became effective for the Company on June 30, 2009. The adoption of this guidance did not have an impact on the Company s consolidated results of operations or financial position.

Accounting Pronouncements Not Yet Adopted

ASU No. 2009-12 Fair Value Measurements and Disclosures Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent). In September of 2009, FASB issued ASU No. 2009-12 Fair Value Measurements and Disclosures Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent). This Update provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures, for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). This Update permits the use of a practical expedient when determining the net asset value. If the practical expedient is used, increased disclosures are required. This Update will become effective for the Company as of December 31, 2009. The Company does not believe this Update will have a material impact on the Company s consolidated results of operations or financial position.

ASU No. 2009-13 Revenue Recognition Multiple-Deliverable Revenue Arrangements-a consensus of the FASB EITF. In October of 2009, FASB issued ASU No. 2009-13 Revenue Recognition Multiple-Deliverable Revenue Arrangements-a consensus of the FASB EITF. This Update provides amendments to Subtopic 605-25 for separating consideration in multiple-deliverable arrangements. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. This Update also requires additional disclosures related to contracts with multiple deliverables. This Update is effective for revenue arrangements entered into beginning on January 1, 2011. The Company does not believe this Update will have a material impact on the Company s consolidated results of operations or financial position.

Table of Contents

ASU No. 2009-14 Software - Certain Revenue Arrangements that Include Software Elements-a consensus of the FASB EITF. In October of 2009, FASB issued ASU No. 2009-14 Software Certain Revenue Arrangements that Include Software Elements-a consensus of the FASB EITF. The amendments in this Update change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product s essential functionality, are no longer within the scope of the software revenue guidance in Subtopic 985-605. This Update is effective for revenue arrangements entered into beginning on January 1, 2011. The Company does not believe this Update will have a material impact on the Company s consolidated results of operations or financial position.

In December of 2008, the FASB issued guidance that requires additional disclosures related to Postretirement Benefit Plan Assets. This guidance will provide users of financial statements with an understanding of: 1) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, 2) the major categories of plan assets, 3) the inputs and valuation techniques used to measure the fair value of plan assets, 4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and 5) significant concentrations of risk within plan assets. This guidance does not require any changes to current accounting. The disclosure requirements will be effective for the Company for the period ending December 31, 2009. The Company does not expect this guidance to have an impact on its consolidated results of operations or financial position.

In June of 2009, the FASB issued guidance related to accounting for transfers of financial assets. This guidance improves the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a continuing interest in transferred financial assets. This guidance also eliminates the concept of a qualifying special-purpose entity, changes the requirements for the de-recognition of financial assets, and calls upon sellers of the assets to make additional disclosures about them. This guidance is effective for interim or annual reporting periods beginning after November 15, 2009. This guidance will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact this guidance will have on its consolidated results of operations and financial position.

In June of 2009, the FASB issued guidance which amends certain concepts related to variable interest entities. Among other accounting and disclosure requirements, this guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. A company has to determine whether or not it should provide consolidated reporting of an entity based upon the entity s purpose and design and the parent company s ability to direct the entity s actions. This guidance is effective for interim or annual reporting periods beginning after November 15, 2009. This guidance will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact this guidance will have on its consolidated results of operations and financial position.

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 of Notes to Consolidated Financial Statements included in the Company s 2008 Form 10-K Annual Report. There were no significant changes to the Company s accounting policies during the nine months ended September 30, 2009, other than those related to credit losses and the FASB guidance that was adopted which is referenced under ASC Investments-Debt Equity Securities Topic, as discussed in Note 2, *Investment Operations*, and the following:

Guaranteed minimum withdrawal benefits The Company establishes liabilities for guaranteed minimum withdrawal benefits (GMWB) on our variable annuity products. U.S. GAAP requires the GMWB liability to be marked-to-market using current implied volatilities for the equity indices. The methods used to estimate the liabilities employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, the Company s nonperformance risk measure, and market volatility. The Company assumes mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity Guaranteed Minimum Death Benefit (GMDB) Mortality Table. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. In the first quarter of 2009, the assumption for long term volatility used for projection purposes was updated to reflect recent market conditions. The liability calculation was changed to reflect a rate increase for all GMWB policyholders.

Table of Contents

Reclassifications

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net income or shareowners equity.

2. INVESTMENT OPERATIONS

Net realized investment gains (losses) for all other investments are summarized as follows:

	For The Three Months Ended September 30, 2009	For The Nine Months Ended September 30, 2009
	(Dollars In Thousands)	
Fixed maturities	$ 4,252	$ 13,870
Equity securities	59	9,562
Impairments	(30,968)	(161,765)
Mark-to-market Modco trading portfolio	164,732	273,639
Mortgage loans and other investments	(3,467)	(5,539)
	$ 134,608	$ 129,767

For the three and nine months ended September 30, 2009, gross gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $9.0 million and $29.1 million, respectively.

The amortized cost and estimated market value of the Company s investments classified as available-for-sale as of September 30, 2009, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
		(Dollars In Thousands)		
2009				
Fixed maturities:				
Bonds				
Residential mortgage-backed securities	$ 3,984,346	$ 36,422	$ (476,988)	$ 3,543,780
Commercial mortgage-backed securities	1,025,070	40,143	(95,428)	969,785
Asset-backed securities	1,159,225	1,752	(24,533)	1,136,444
United States Government and authorities	490,018	2,576	(202)	492,392
States, municipalities, and political subdivisions	197,706	18,838	(17)	216,527
Convertibles and bonds with warrants	88		(52)	36

All other corporate bonds		13,054,416		600,900		(573,185)		13,082,131
Redeemable preferred stocks		36						36
		19,910,905		700,631		(1,170,405)		19,441,131
Equity securities		274,017		3,715		(10,787)		266,945
Short-term investments		833,919						833,919
	$	21,018,841	$	704,346	$	(1,181,192)	$	20,541,995

As of September 30, 2009, the Company had an additional $3.1 billion of fixed maturities, $3.1 million of equity securities, and $242.7 million of short-term investments classified as trading securities.

Table of Contents

The amortized cost and estimated market value of available-for-sale fixed maturities as of September 30, 2009, by expected maturity, are shown below. Expected maturities are derived from estimated rates of prepayment that may differ from actual rates of prepayment.

	Estimated Amortized Cost	Estimated Fair Market Value
	(Dollars In Thousands)	
Due in one year or less	$ 1,134,415	$ 1,123,665
Due after one year through five years	6,708,050	6,416,975
Due after five years through ten years	3,822,352	3,869,867
Due after ten years	8,246,088	8,030,624
	$ 19,910,905	$ 19,441,131

Each quarter the Company reviews investments with unrealized losses and tests for other-than-temporary impairments. The Company analyzes various factors to determine if any specific other-than-temporary asset impairments exist. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) the Company s intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer s industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered. Once a determination has been made that a specific other-than-temporary impairment exists, the security s basis is adjusted and an other-than-temporary impairment is recognized. Equity securities that are other-than temporarily impaired are written down to fair value with a realized loss recognized in earnings. Other-than-temporary impairments to debt securities that the Company does not intend to sell and does not expect to be required to sell before recovering the security s amortized cost are written down to discounted expected future cash flows (post impairment cost) and credit losses are recorded in earnings. The difference between the securities discounted expected future cash flows and the fair value of the securities is recognized in other comprehensive income as a non-credit portion of the recognized other-than-temporary impairment. When calculating the post impairment cost for residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities, the Company considers all known market data related to cash flows to estimate future cash flows. When calculating the post impairment cost for corporate debt securities, the Company considers all contractual cash flows to estimate expected future cash flows. To calculate the post impairment cost, the expected future cash flows are discounted at the original purchase yield. Debt securities that the Company intends to sell or expects to be required to sell before recovery are written down to fair value with the change recognized in earnings.

During the three and nine months ended September 30, 2009, the Company recorded other-than-temporary impairments of investments of $14.9 million and $181.1 million, respectively. Of the $14.9 million of impairments for the three months ended September 30, 2009, $31.0 million was recorded in earnings and $16.1 million of non-credit gains was recorded in other comprehensive income (loss). These non-credit gains were caused by recognizing, in the current quarter, credit losses in earnings that had previously been recognized as non-credit losses in other comprehensive income (loss). Of the $181.1 million of impairments for the nine months ended September 30, 2009, $161.8 million was recorded in earnings and $19.3 million was recorded in other comprehensive income (loss). For the three and nine months ended September 30, 2009, there were $0.2 million and $19.6 million of other-than-temporary impairments related to equity securities, respectively. For the three and nine months ended September 30, 2009, there were $14.7 million and $161.5 million of other-than-temporary impairments related to debt securities, respectively.

For the three months ended September 30, 2009, other-than-temporary impairments related to debt securities that the Company does not intend to sell and does not expect to be required to sell prior to recovering amortized cost were $14.7 million, of which $30.8 million of credit losses were recognized in earnings, and $16.1 million of non-credit gains were recorded in other comprehensive income (loss). These non-credit gains were caused by recognizing, in the current quarter, credit losses in earnings that had previously been recognized in other comprehensive income (loss) as non-credit losses. During this period, there were no other-than-temporary impairments related to debt securities that the Company intends to sell or expects to be required to sell.

For the nine months ended September 30, 2009, other-than-temporary impairments related to debt securities that the Company does not intend to sell and does not expect to be required to sell prior to recovering amortized cost were $131.1 million, with $111.8 million of credit losses recorded on debt securities in earnings, and $19.3 million of non-credit losses recorded in other comprehensive income (loss). During the same period,

Table of Contents

other-than-temporary impairments related to debt securities that the Company intends to sell or expects to be required to sell were $30.4 million and were recorded in earnings.

The following chart is a rollforward of credit losses for the three and nine months ended September 30, 2009, on debt securities held by the Company for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (loss):

		For The Three Months Ended September 30, 2009		For The Nine Months Ended September 30, 2009
		(Dollars In Thousands)		
Beginning balance	$	46,728	$	
Additions for newly impaired securities		11,601		67,019
Additions for previously impaired securities				7,136
Reductions for previously impaired securities due to a change in expected cash flows		(16,625)		(32,451)
Reductions for previously impaired securities that were sold in the current period		(17,949)		(17,949)
Ending balance	$	23,755	$	23,755

The following table includes the Company s investments gross unrealized losses and fair value that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2009:

	Less Than 12 Months				12 Months or More				Total			
		Market Value		Unrealized Loss		Market Value		Unrealized Loss		Market Value		Unrealized Loss
					(Dollars In Thousands)							
Residential mortgage-backed securities	$	237,820	$	(14,095)	$	2,454,290	$	(462,893)	$	2,692,110	$	(476,988)
Commercial mortgage-backed securities		33,349		(46,774)		320,101		(48,654)		353,450		(95,428)
Asset-backed securities		88,423		(911)		932,175		(23,622)		1,020,598		(24,533)
US government		29,799		(200)		56		(2)		29,855		(202)
States, municipalities, etc.						476		(17)		476		(17)
Convertibles bonds						36		(52)		36		(52)
Other corporate bonds		717,806		(51,606)		3,574,886		(521,579)		4,292,692		(573,185)
Redeemable preferred												
Equities		23,389		(1,651)		109,499		(9,136)		132,888		(10,787)
	$	1,130,586	$	(115,237)	$	7,391,519	$	(1,065,955)	$	8,522,105	$	(1,181,192)

For commercial mortgage-backed securities in an unrealized loss position for greater than 12 months, $45.5 million of the total $48.7 million unrealized loss relates to securities issued in Company-sponsored commercial loan securitizations. These losses relate primarily to market illiquidity as opposed to underlying credit concerns. Factors such as credit enhancements within the deal structures and the underlying collateral performance and characteristics support the recoverability of the investments. The other corporate bonds category has gross unrealized losses greater than 12 months of $521.6 million as of September 30, 2009. These losses relate primarily to fluctuations in credit spreads. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information including the Company s ability and intent to hold these securities to recovery. The Company does not consider these unrealized loss positions to be other-than-temporary, based on the factors discussed and because the Company has the ability and intent to hold equity investments until the fair values recover, and does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of debt securities.

As of September 30, 2009, the Company had bonds in our available-for-sale portfolio, which were rated below investment grade of $2.5 billion and had an amortized cost of $3.2 billion. In addition, included in our trading portfolio, the Company held $412.5 million of securities which were rated below investment grade. As of September 30, 2009, approximately $28.3 million of the bonds rated below investment grade were securities issued in Company-sponsored commercial mortgage loan securitizations. Approximately $588.3 million of the below investment grade bonds were not publicly traded.

Table of Contents

The change in unrealized gains (losses), net of income tax, on fixed maturity and equity securities, classified as available-for-sale is summarized as follows:

	For The Three Months Ended September 30, 2009	For The Nine Months Ended September 30, 2009
	(Dollars In Thousands)	
Fixed maturities	$ 859,598	$ 1,639,944
Equity securities	11,580	31,797
	$ 871,178	$ 1,671,741

3. NON-RECOURSE FUNDING OBLIGATIONS

Non-recourse funding obligations outstanding as of September 30, 2009, on a consolidated basis, listed by issuer, are reflected in the following table:

Issuer	Balance	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
	(Dollars In Thousands)		
Golden Gate Captive Insurance Company	$ 800,000	2037	3.53%
Golden Gate II Captive Insurance Company	575,000	2052	1.59%
Total	$ 1,375,000		

4. COMMITMENTS AND CONTINGENCIES

The Company is contingently liable to obtain a $20 million letter of credit under indemnity agreements with directors. Such agreements provide insurance protection in excess of the directors and officers liability insurance in-force at the time up to $20 million. Should certain events occur constituting a change in control, 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. These obligations are in addition to the customary obligation to indemnify officers and directors contained in the Company s bylaws.

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 do 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, broker dealers and other providers of financial services involving sales, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Often 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 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, in the ordinary course of business, is involved in such litigation and arbitration in the ordinary course of business. The occurrence of such litigation and arbitration may become more frequent and/or severe when general economic conditions have deteriorated. Although the Company cannot predict the outcome of any such litigation or arbitration, the Company does not believe that any such outcome will have a material impact on its financial condition or results of the operations.

Table of Contents

5. STOCK-BASED COMPENSATION

Performance shares awarded during the nine months ended September 30, 2009 and 2008, and the estimated fair value of the awards at grant date are as follows:

Year Awarded	Performance Shares	Estimated Fair Value
	(Dollars In Thousands)	
2009		$
2008	75,900	$ 2,900

The criteria for payment of 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. For the 2008 awards, if the Company s results are below the 25th percentile of the comparison group, no portion of the award is earned. For the 2005-2007 awards, if the Company s results are below the 40th percentile of the comparison group, no portion of the award is earned. If the Company s results are at or above the 90th percentile, the award maximum is earned. Awards are paid in shares of the Company s Common Stock. As noted in the table above, no awards were granted in the first nine months of 2009.

Between 1996 and 2009, 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 five years after the date of grants or in three or four equal annual installments beginning one year after the date of grant (earlier upon the death, disability, or retirement of the officer, or in certain circumstances, of 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 nine months ended September 30, 2009, is as follows:

	Weighted-Average Base Price per share	No. of SARs
Balance as of December 31, 2008	$ 33.33	1,559,573
SARs granted	3.57	915,829
SARs exercised / forfeited	40.16	(6,200)
Balance as of September 30, 2009	$ 22.28	2,469,202

The SARs issued during the nine months ended September 30, 2009, had an estimated fair value at grant date of $0.9 million. The fair value was estimated using a Black-Scholes option pricing model. Assumptions used in the model for the SARs granted (the simplified method under the ASC Compensation-Stock Compensation Topic was used for these awards) were as follows: expected volatility ranging from 68.5% to 77.2%, a risk-free interest rate ranging from 2.7% to 3.0%, a dividend rate ranging from 2.3% to 10.3%, a zero percent forfeiture rate, and an expected exercise date of 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, the Company issued 580,700 restricted stock units during the nine months ended September 30, 2009. These awards have a total fair value of $2.2 million. Approximately half of these restricted stock units vest in 2012 and the remainder vest in 2013.

14

Table of Contents

6. 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:

	For The Three Months Ended September 30, 2009	For The Three Months Ended September 30, 2008	For The Nine Months Ended September 30, 2009	For The Nine Months Ended September 30, 2008
	(Dollars In Thousands)			
Service cost Benefits earned during the period	$ 1,889	$ 2,155	$ 5,667	$ 7,193
Interest cost on projected benefit obligation	2,395	2,316	7,185	7,731
Expected return on plan assets	(2,531)	(2,571)	(7,593)	(8,582)
Amortization of prior service cost	(98)	49	(294)	164
Amortization of actuarial losses	568	748	1,704	2,496
Net periodic benefit cost	$ 2,223	$ 2,697	$ 6,669	$ 9,002

During April of 2009, the Company contributed $2.0 million to the defined benefit pension plan. The Company does not plan to contribute additional cash to its defined benefit pension plan during the remainder of 2009.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the three and nine months ended September 30, 2009 and 2008 was immaterial to the Company s financial statements.

7. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period, including shares issuable under various deferred compensation plans. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares and dilutive potential common shares outstanding during the period, assuming the shares were not anti-dilutive, including shares issuable under various stock-based compensation plans and stock purchase contracts.

During the second quarter of 2009, the Company issued 15.5 million shares of common stock through a public offering. This offering generated approximately $132.8 million of net proceeds to the Company.

Table of Contents

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars In Thousands, Except Per Share Amounts)			
Calculation of basic earnings (loss) per share:				
Net income (loss)	$ 27,585	$ (100,008)	$ 140,477	$ (25,942)
Average shares issued and outstanding	85,579,525	70,130,015	77,557,599	70,114,522
Issuable under various deferred compensation plans	901,715	985,350	908,086	989,861
Weighted shares outstanding - Basic	86,481,240	71,115,365	78,465,685	71,104,383
Per share:				
Basic earnings (loss) per share	$ 0.32	$ (1.41)	$ 1.79	$ (0.36)
Calculation of diluted earnings (loss) per share:				
Net income (loss)	$ 27,585	$ (100,008)	$ 140,477	$ (25,942)
Weighted shares outstanding - Basic	86,481,240	71,115,365	78,465,685	71,104,383
Stock appreciation rights (SARs)(1) (2)	446,269		332,604	
Issuable under various other stock-based compensation plans	111,244		136,784	
Restricted stock units(2)	333,906		221,232	
Weighted shares outstanding - Diluted(2)	87,372,659	71,115,365	79,156,305	71,104,383
Per share:				
Diluted earnings (loss) per share	$ 0.32	$ (1.41)	$ 1.77	$ (0.36)

---

(1) Excludes 1,558,373 and 680,920 SARs as of September 30, 2009 and 2008, respectively, that are antidilutive. In the event the average market price exceeds the base 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 oustanding for applicable periods.

(2) Per the earnings per share guidance, the ASC Earnings Per Share Topic, no potential common shares are included in the computation of diluted per share amounts when a loss from operations exists. Potential SARs totaling 126,779 and 167,911 for the three and nine months ended September 30, 2008, respectively, potential shares issuable under various other stock-based compensation plans totaling 125,355 and 141,230 for the three and nine months ended September 30, 2008, respectively, and potential restricted stock units totaling 13,399 and 12,086 for the three and nine months ended September 30, 2008, respectively, were outstanding but were antidilutive and thus not included in the computation of diluted EPS for the respective periods.

Table of Contents

8. COMPREHENSIVE INCOME (LOSS)

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

	For The Three Months Ended September 30, 2009	For The Three Months Ended September 30, 2008	For The Nine Months Ended September 30, 2009	For The Nine Months Ended September 30, 2008
	(Dollars In Thousands)			
Net income (loss)	$ 27,585	$ (100,008)	$ 140,477	$ (25,942)
Change in net unrealized (losses) gains on investments, net of income tax: (three months: 2009 - $342,694; 2008 - $(310,166); nine months: 2009 - $655,781; 2008 - $(556,570))	626,065	(567,195)	1,192,473	(1,017,865)
Change in net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2009 - $5,633; 2008 - $0; nine months: 2009 - $(6,755); 2008 - $0)	10,462		(12,544)	
Change in accumulated gain (loss)-hedging, net of income tax: (three months: 2009 - $1,833; 2008 - $(8,121); nine months: 2009 - $12,154; 2008 - $(4,703))	3,299	(15,226)	21,877	(8,465)
Minimum pension liability adjustment, net of income tax: (three months: 2009 - $178; 2008 - $195; nine months: 2009 - $533; 2008 - $511)	329	316	989	949
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2009 - $9,367; 2008 - $76,837; nine months: 2009 - $48,890; 2008 - $97,245)	17,290	140,034	89,443	177,616
Reclassification adjustment for hedging amounts included in net income, net of income tax: (three months: 2009 - $(666); 2008 - $(288); nine months: 2009 - $(363); 2008 - $49)	(1,198)	88	(654)	89
Comprehensive income (loss)	$ 683,832	$ (541,991)	$ 1,432,061	$ (873,618)

9. OPERATING SEGMENTS

The Company operates several business segments each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company periodically evaluates its operating segments, as prescribed in the ASC Segment Reporting Topic, and makes adjustments to its segment reporting as needed. 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, 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. In the ordinary course of business, the Acquisitions segment regularly considers acquisitions of blocks of policies or insurance companies. The level of the segment s acquisition activity is predicated upon many factors, including available capital, operating capacity, and market dynamics. Policies acquired through the Acquisition segment are closed blocks of business (no new policies are being marketed). Therefore, earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

- The Annuities segment markets and supports fixed and variable annuity products. These products are primarily sold through broker-dealers, 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

Table of Contents

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. In addition, the segment markets a guaranteed asset protection (GAP) product.

- The Corporate and Other segment primarily consists of net investment income, including the impact of carrying excess liquidity, and expenses not attributable to the segments above (including net investment income on capital and interest on debt) and a trading portfolio that was previously part of a variable interest entity. This segment also includes earnings from several non-strategic lines of business (primarily cancer insurance, residual value insurance, surety insurance, and group annuities), various investment-related transactions, and the operations of several small subsidiaries.

The Company uses the same accounting policies and procedures to measure segment operating income (loss) and assets as it uses to measure consolidated net income (loss) and assets. Segment operating income (loss) is income (loss) before income tax excluding net realized investment gains and losses (net of the related amortization of deferred policy acquisition costs (DAC)/value of business acquired (VOBA) and participating income from real estate ventures), and the cumulative effect of change in accounting principle. Periodic settlements of derivatives associated with corporate debt and certain investments and annuity products are included in realized gains and losses but are considered part of operating income because the derivatives are used to mitigate risk in items affecting consolidated and segment operating income (loss). Segment operating income (loss) represents the basis on which the performance of the Company s business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on statutory policy liabilities, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

There were no significant intersegment transactions.

Table of Contents

The following tables summarize financial information for the Company s segments. Asset adjustments represent the inclusion of assets related to discontinued operations:

	For The Three Months Ended September 30, 2009	For The Three Months Ended September 30, 2008	For The Nine Months Ended September 30, 2009	For The Nine Months Ended September 30, 2008
	(Dollars In Thousands)			
Revenues				
Life Marketing	$ 285,737	$ 279,307	$ 834,782	$ 775,293
Acquisitions	189,942	161,372	590,694	567,949
Annuities	96,050	76,189	360,480	254,405
Stable Value Products	49,075	96,238	173,129	259,602
Asset Protection	69,619	74,554	204,622	222,830
Corporate and Other	656	(177,576)	34,667	(159,692)
Total revenues	$ 691,079	$ 510,084	$ 2,198,374	$ 1,920,387
Segment Operating Income (Loss)				
Life Marketing	$ 26,544	$ 52,222	$ 106,233	$ 136,798
Acquisitions	33,061	33,021	101,723	101,111
Annuities	16,075	556	36,995	12,532
Stable Value Products	14,339	28,184	51,522	61,945
Asset Protection	5,731	8,186	16,667	24,702
Corporate and Other	(22,826)	(32,173)	(22,425)	(64,239)
Total segment operating income	72,924	89,996	290,715	272,849
Realized investment gains (losses) - investments(1)	135,388	(350,399)	131,411	(491,434)
Realized investment gains (losses) - derivatives(2)	(166,676)	100,461	(208,116)	169,711
Income tax expense	(14,051)	59,934	(73,533)	22,932
Net income (loss)	$ 27,585	$ (100,008)	$ 140,477	$ (25,942)

(1) Realized investment gains (losses) - investments	$ 134,608	$ (351,102)	$ 129,767	$ (491,558)
Less: related amortization of DAC	(780)	(703)	(1,644)	(124)
	$ 135,388	$ (350,399)	$ 131,411	$ (491,434)
(2) Realized investment gains (losses) - derivatives	$ (195,540)	$ 91,991	$ (201,098)	$ 155,421
Less: settlements on certain interest rate swaps		1,915	3,401	4,185
Less: derivative activity related to certain annuities	(28,864)	(10,385)	3,617	(18,475)
	$ (166,676)	$ 100,461	$ (208,116)	$ 169,711

Table of Contents

Operating Segment Assets
As of September 30, 2009
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 8,563,580	$ 9,220,878	$ 9,370,635	$ 3,850,410
Deferred policy acquisition costs and value of business acquired	2,254,870	852,194	434,947	12,919
Goodwill	10,192	45,685		
Total assets	$ 10,828,642	$ 10,118,757	$ 9,805,582	$ 3,863,329

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 781,615	$ 6,193,756	$ 27,835	$ 38,008,709
Deferred policy acquisition costs and value of business acquired	99,582	5,755		3,660,267
Goodwill	62,670	83		118,630
Total assets	$ 943,867	$ 6,199,594	$ 27,835	$ 41,787,606

Operating Segment Assets
As of December 31, 2008
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 7,874,075	$ 9,572,548	$ 7,530,551	$ 4,944,830
Deferred policy acquisition costs and value of business acquired	2,580,806	956,436	528,310	15,575
Goodwill	10,192	48,009		
Total assets	$ 10,465,073	$ 10,576,993	$ 8,058,861	$ 4,960,405

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 878,280	$ 4,424,754	$ 26,136	$ 35,251,174
Deferred policy acquisition costs and value of business acquired	114,615	4,579		4,200,321
Goodwill	62,670	83		120,954
Total assets	$ 1,055,565	$ 4,429,416	$ 26,136	$ 39,572,449

10. GOODWILL

During the nine months ended September 30, 2009, the Company decreased its goodwill balance by approximately $2.3 million. The decrease was due to an adjustment in the Acquisitions segment related to tax benefits realized during the first nine months of 2009 on the portion of tax goodwill in excess of GAAP basis goodwill. As of September 30, 2009, the Company had an aggregate goodwill balance of $118.6 million.

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business. Goodwill is tested for impairment at least annually. The Company evaluates the carrying value of goodwill at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. The Company utilizes a fair value measurement (discounted cash flow analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. As of December 31, 2008, the Company evaluated its goodwill and determined that the fair value had not decreased below the carrying value and no adjustment to impair goodwill was necessary.

Table of Contents

In addition, in light of the decrease in the Company s market capitalization (market cap) during the second half of 2008 and continuing into 2009, the Company reviewed the underlying factors causing the market cap decrease to determine if the market cap fluctuation would be indicative of an additional factor to consider in its goodwill impairment testing, as such a decline in the market cap or market value of an entity s securities may or may not be indicative of a triggering event which could require the Company to perform an interim or event-driven impairment analysis.

The Company s material goodwill balances are attributable to its business segments. As previously noted, the Company s operating segments discounted cash flows supported the goodwill balance as of December 31, 2008. In the Company s view, the reduction in market cap is primarily attributable to illiquidity of credit markets and capital markets, concern related to its investment portfolio s unrealized loss positions, impairments recognized during 2008 and 2009, and an overall fear of the capital levels and potential economic impacts to financial services companies. We believe that these concerns arose primarily from the other-than-temporary impairments of investments recorded in the Corporate and Other segment during 2008 and the first half of 2009. The Company monitors the aggregate fair value of its reporting units as a comparison to its overall market capitalization. The Company believes the factors that led to the decline in market cap primarily impacted it at a corporate level, and largely within the Corporate and Other segment, which does not carry a material balance of goodwill, as opposed to impacting the prescribed and inherent fair values of the Company s other operating segments and reporting units. As a result, in the Company s view, the decrease in its market cap does not invalidate the Company s discounted cash flow results. As of September 30, 2009, the Company has determined that no indicators of event-driven impairments were noted related to the Company s goodwill balances.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company determined the fair value of its financial instruments based on the fair value hierarchy established in FASB guidance referenced in the Fair Value Measurements and Disclosures Topic which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In the first quarter of 2009, the Company adopted the provisions from the FASB guidance that is referenced in the Fair Value Measurements and Disclosures Topic for non-financial assets and liabilities (such as property and equipment, goodwill, and other intangible assets) that are required to be measured at fair value on a periodic basis. The effect on the Company s periodic fair value measurements for non-financial assets and liabilities was not material.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the Consolidated Condensed Balance Sheets are categorized as follows:

- **Level 1:** Unadjusted quoted prices for identical assets or liabilities in an active market.

- **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets

b) Quoted prices for identical or similar assets or liabilities in non-active markets

c) Inputs other than quoted market prices that are observable

d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

• **Level 3:** Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Table of Contents

As a result of the adoption of the FASB guidance on fair value, the Company recognized the following adjustment to opening retained earnings at January 1, 2008, for its Equity Indexed Annuities that were previously accounted for under FASB guidance on certain hybrid financial instruments:

	Carrying Value Prior to Adoption January 1, 2008	Carrying Value After Adoption January 1, 2008	Transition Adjustment to Retained Earnings Gain (Loss)
		(Dollars In Thousands)	
Equity-indexed annuity reserves, net	$ 145,912	$ 143,634	$ 2,278
Pre-tax cumulative effect of adoption			2,278
Change in deferred income taxes			(808)
Cumulative effect of adoption			$ 1,470

In addition, the Company recognized a transition adjustment for the embedded derivative liability related to annuities with guaranteed minimum withdrawal benefits. The impact of this adjustment, net of DAC amortization, reduced income before income taxes by $0.4 million during the first quarter of 2008.

Table of Contents

The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2009:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Asset-backed securities	$	$ 395,603	$ 740,841	$ 1,136,444
Commercial mortgage-backed securities		145,985	823,800	969,785
Residential mortgage-backed securities		3,543,752	28	3,543,780
US government and authorities	473,659	18,733		492,392
State, municipalities and political subdivisions		216,438	89	216,527
Public utilities				
All other corporate bonds		12,961,058	121,109	13,082,167
Redeemable preferred stocks				
Convertible bonds with warrants		36		36
Total fixed maturity securities - available-for-sale	473,659	17,281,605	1,685,867	19,441,131
Fixed maturity securities - trading	261,048	2,768,621	89,359	3,119,028
Total fixed maturity securities	734,707	20,050,226	1,775,226	22,560,159
Equity securities	199,344	85	70,628	270,057
Other long-term investments (1)	7	26,430	42,253	68,690
Short-term investments	1,009,269	67,352		1,076,621
Total investments	1,943,327	20,144,093	1,888,107	23,975,527
Cash	225,302			225,302
Other assets	4,722			4,722
Assets related to separate acccounts				
Variable annuity	2,694,715			2,694,715
Variable universal life	300,358			300,358
Total assets measured at fair value on a recurring basis	$ 5,168,424	$ 20,144,093	$ 1,888,107	$ 27,200,624
Liabilities:				
Annuity account balances (2)	$	$	$ 150,071	$ 150,071
Other liabilities (1)		58,046	141,779	199,825
Total liabilities measured at fair value on a recurring basis	$	$ 58,046	$ 291,850	$ 349,896

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

Table of Contents

The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Mortgage-backed and asset-backed securities (3)	$	$ 4,693,445	$ 1,538,561	$ 6,232,006
US government and authorities	55,672	17,151		72,823
State, municipalities and political subdivisions		29,879	93	29,972
Public utilities		1,667,414		1,667,414
All other corporate bonds		8,771,411	88,806	8,860,217
Redeemable preferred stocks			36	36
Convertible bonds with warrants		19		19
Total fixed maturity securities - available-for-sale	55,672	15,179,319	1,627,496	16,862,487
Fixed maturity securities - trading	375,025	2,828,823	32,645	3,236,493
Total fixed maturity securities	430,697	18,008,142	1,660,141	20,098,980
Equity securities	214,413	11,309	76,410	302,132
Other long-term investments (1)	48	5,901	256,973	262,922
Short-term investments	985,950	72,395	1,161	1,059,506
Total investments	1,631,108	18,097,747	1,994,685	21,723,540
Cash	149,358			149,358
Other assets	3,985			3,985
Assets related to separate acccounts				
Variable annuity	2,027,470			2,027,470
Variable universal life	242,944			242,944
Total assets measured at fair value on a recurring basis	$ 4,054,865	$ 18,097,747	$ 1,994,685	$ 24,147,297
Liabilities:				
Annuity account balances (2)	$	$	$ 152,762	$ 152,762
Other liabilities (1)	3,179	123,006	113,311	239,496
Total liabilities measured at fair value on a recurring basis	$ 3,179	$ 123,006	$ 266,073	$ 392,258

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

(3) Includes asset-backed securities, commercial mortgage-backed securities, and residential mortgage-backed securities.

Determination of fair values

The valuation methodologies used to determine the fair values of assets and liabilities reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines certain fair values based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company s credit standing, liquidity and, where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments as listed in the above table.

Table of Contents

Fixed Maturity, Short-Term, and Equity Securities

The fair value of fixed maturity, short-term, and equity securities is determined by management after considering one of three primary sources of information: third party pricing services, non-binding independent broker quotations, or pricing matrices. Security pricing is applied using a waterfall approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for non-binding prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Third party pricing services price over 90% of the Company s fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which we purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party pricing service or an independent broker quotation.

The pricing matrix used by the Company begins with current spread levels to determine the market price for the security. The credit spreads, assigned by brokers, incorporate the issuer s credit rating, liquidity discounts, weighted average of contracted cash flows, and risk premium, if warranted, due to the issuer s industry and the security s time to maturity. The Company uses credit ratings provided by nationally recognized rating agencies.

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the nine months ended September 30, 2009.

The Company has analyzed the third party pricing services valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs that is accordance with the Fair Value Measurements and Disclosures Topic of the ASC. Based on this evaluation and investment class analysis, each price was classified into Level 1, 2 or 3. Most prices provided by third party pricing services are classified into Level 2 because the significant inputs used in pricing the securities are market observable and the observable inputs are corroborated by the Company. Since the matrix pricing of certain debt securities includes significant non-observable inputs, they are classified as Level 3.

Derivatives

Derivative instruments are valued using exchange prices, independent broker quotations or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of September 30, 2009, 61.9% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest and equity volatility, equity index levels and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analysis.

Derivative instruments classified as Level 1 include futures and certain options, which are traded on active exchange markets.

Table of Contents

Derivative instruments classified as Level 2 primarily include interest rate, inflation, currency exchange and credit default swaps. These derivative valuations are determined using independent broker quotations, which are corroborated with observable market inputs.

Derivative instruments classified as Level 3 were total return swaps and embedded derivatives and include at least one non-observable significant input. A derivative instrument containing Level 1 and Level 2 inputs will be classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.

The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instruments may not be classified within the same fair value hierarchy level as the associated assets and liabilities. Therefore, the changes in fair value on derivatives reported in Level 3 may not reflect the offsetting impact of the changes in fair value of the associated assets and liabilities.

GMWB Embedded Derivative

The GMWB embedded derivative is marked-to-market using current implied volatilities for the equity indices. The methods used to estimate the liabilities employ significant unobservable inputs, such as lapses, policyholder behavior, equity market returns, interest rates, the Company s nonperformance risk measure, and market volatility. The Company assumes mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. As a result, the GMWB embedded derivative is categorized as Level 3.

Separate Accounts

Separate account assets are invested in open-ended mutual funds and are included in Level 1.

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2009, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains (losses)		Purchases, Issuances, and Settlements (net)	Transfers in and/or out of Level 3	Ending Balance	Total Gains (Losses) Included in Earnings Related to Instruments Still Held at the Reporting Date
		Included in Earnings	Included in Other Comprehensive Income				
				(Dollars In Thousands)			
Assets:							
Fixed maturity securities - available-for-sale							
Asset-backed securities	$ 724,186	$	$ 9,985	$ 10,147	$ (3,477)	$ 740,841	$
Commercial mortgage-backed securities	817,585		35,205	(28,990)		823,800	
Residential mortgage-backed securities	30	(13,987)	9,418	1,012	3,555	28	
State, municipalities and political subdivisions	89					89	
All other corporate bonds	84,577		8,003	18,801	9,728	121,109	
Total fixed maturity securities - available-for-sale	1,626,467	(13,987)	62,611	970	9,806	1,685,867	
Fixed maturity securities - trading	86,355	4,808		(449)	(1,355)	89,359	3,393
Total fixed maturity securities	1,712,822	(9,179)	62,611	521	8,451	1,775,226	3,393
Equity securities	69,384		14	1,251	(21)	70,628	
Other long-term investments (1)	156,386	(114,133)				42,253	(114,133)
Short-term investments	664				(664)		
Total investments	1,939,256	(123,312)	62,625	1,772	7,766	1,888,107	(110,740)
Total assets measured at fair value on a recurring basis	$ 1,939,256	$ (123,312)	$ 62,625	$ 1,772	$ 7,766	$ 1,888,107	$ (110,740)
Liabilities:							
Annuity account balances (2)	$ 152,427	$ (1,992)	$	$ 4,348	$	$ 150,071	$
Other liabilities (1)	66,131	(75,648)				141,779	(75,648)
Total liabilities measured at fair value on a recurring basis	$ 218,558	$ (77,640)	$	$ 4,348	$	$ 291,850	$ (75,648)

(1) Represents certain freestanding and embedded derivatives

(2) Represents liabilities related to equity indexed annuities

For the three months ended September 30, 2009, $14.8 million of securities were transferred into Level 3. This amount was transferred entirely from Level 2. These transfers resulted from securities that were priced by IDC or brokers in previous quarters and were priced internally as of September 30, 2009.

For the three months ended September 30, 2009, $7.0 million of securities were transferred out of Level 3. This amount was transferred entirely to Level 2. These transfers resulted from securities that were priced internally in previous quarters and were priced by IDC or brokers as of September 30, 2009.

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2008, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains (losses) Included in Earnings	Total Realized and Unrealized Gains (losses) Included in Other Comprehensive Income	Purchases, Issuances, and Settlements (net)	Transfers in and/or out of Level 3	Ending Balance	Total Gains (Losses) Included in Earnings Related to Instruments Still Held at the Reporting Date
	(Dollars In Thousands)						
Assets:							
Fixed maturity securities - available-for-sale							
Mortgage-backed securities (3)	$ 2,117,728	$	$ 90,558	$ (333,096)	$ (245,011)	$ 1,630,179	$
State, municipalities and political subdivisions	9,025		6		(8,934)	97	
Public utilities	190,164		(5,174)	(30,281)	(154,709)		
All other corporate bonds	2,427,207	(41,514)	(60,217)	(626,039)	(1,638,101)	61,336	
Redeemable preferred stocks	36					36	
Convertible bonds with warrants	39		(1)		(38)		
Total fixed maturity securities - available-for-sale	4,744,199	(41,514)	25,172	(989,416)	(2,046,793)	1,691,648	
Fixed maturity securities - trading	576,424	(15,275)		(140,675)	(397,011)	23,463	25,548
Total fixed maturity securities	5,320,623	(56,789)	25,172	(1,130,091)	(2,443,804)	1,715,111	25,548
Equity securities	69,566		69	7,221	(497)	76,359	
Other long-term investments (1)	44,422	105,196		(1,558)		148,060	105,196
Short-term investments	45,718		(612)		(43,750)	1,356	
Total investments	5,480,329	48,407	24,629	(1,124,428)	(2,488,051)	1,940,886	130,744
Total assets measured at fair value on a recurring basis	$ 5,480,329	$ 48,407	$ 24,629	$ (1,124,428)	$ (2,488,051)	$ 1,940,886	$ 130,744
Liabilities:							
Annuity account balances (2)	$ 146,579	$ (4,196)	$	$ (3,379)	$	$ 154,154	$ (4,196)
Other liabilities (1)	6,459	(8,536)		1,565		13,430	(8,536)
Total liabilities measured at fair value on a recurring basis	$ 153,038	$ (12,732)	$	$ (1,814)	$	$ 167,584	$ (12,732)

(1) Represents certain freestanding and embedded derivatives

(2) Represents liabilities related to equity indexed annuities

(3) Includes asset-backed securities, commercial mortgage-backed securities, and residential mortgage-backed securities.

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2009, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains (losses)					
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Purchases, Issuances, and Settlements (net)	Transfers in and/or out of Level 3	Ending Balance	Total Gains (Losses) Included in Earnings Related to Instruments Still Held at the Reporting Date
				(Dollars In Thousands)			
Assets:							
Fixed maturity securities - available-for-sale							
Asset-backed securities	$ 682,710	$ (31)	$ 51,957	$ 9,682	$ (3,477)	$ 740,841	$
Commercial mortgage-backed securities	855,817		12,768	(44,785)		823,800	
Residential mortgage-backed securities	34	(13,987)	9,417	1,009	3,555	28	
State, municipalities and political subdivisions	93			(4)		89	
All other corporate bonds	88,842	(49)	7,127	3,194	21,995	121,109	
Total fixed maturity securities - available-for-sale	1,627,496	(14,067)	81,269	(30,904)	22,073	1,685,867	
Fixed maturity securities - trading	32,645	8,345		75,044	(26,675)	89,359	6,496
Total fixed maturity securities	1,660,141	(5,722)	81,269	44,140	(4,602)	1,775,226	6,496
Equity securities	76,411		580	(6,342)	(21)	70,628	
Other long-term investments (1)	256,973	(214,720)				42,253	(214,720)
Short-term investments	1,161		(286)		(875)		
Total investments	1,994,686	(220,442)	81,563	37,798	(5,498)	1,888,107	(208,224)
Total assets measured at fair value on a recurring basis	$ 1,994,686	$ (220,442)	$ 81,563	$ 37,798	$ (5,498)	$ 1,888,107	$ (208,224)
Liabilities:							
Annuity account balances (2)	$ 152,762	$ (3,261)	$	$ 5,952	$	$ 150,071	$
Other liabilities (1)	113,311	(28,468)				141,779	(28,468)
Total liabilities measured at fair value on a recurring basis	$ 266,073	$ (31,729)	$	$ 5,952	$	$ 291,850	$ (28,468)

(1) Represents certain freestanding and embedded derivatives

(2) Represents liabilities related to equity indexed annuities

For the nine months ended September 30, 2009, $36.2 million of securities were transferred into Level 3. This amount was transferred entirely from Level 2. These transfers resulted from securities that were priced by IDC or brokers in previous quarters and were priced internally as of September 30, 2009.

For the nine months ended September 30, 2009, $41.7 million of securities were transferred out of Level 3. This amount was transferred entirely to Level 2. These transfers resulted from securities that were priced internally in previous quarters and were priced by IDC or brokers as of September 30, 2009.

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2008, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains (losses)					Total Gains (Losses) Included in Earnings Related to Instruments
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Purchases, Issuances, and Settlements (net)	Transfers in and/or out of Level 3	Ending Balance	Still Held at the Reporting Date
	(Dollars In Thousands)						
Assets:							
Fixed maturity securities - available-for-sale							
Mortgage-backed securities (3)	$ 1,290,299	$	$ (63,138)	$ 516,643	$ (113,625)	$ 1,630,179	$
State, municipalities and political subdivisions	9,126		(92)	(3)	(8,934)	97	
Public utilities	176,473		(9,762)	(12,002)	(154,709)		
All other corporate bonds	2,248,703	(41,514)	(161,520)	(348,222)	(1,636,111)	61,336	
Redeemable preferred stocks	36					36	
Convertible bonds with warrants	227		(47)	(142)	(38)		
Total fixed maturity securities - available-for-sale	3,724,864	(41,514)	(234,559)	156,274	(1,913,417)	1,691,648	
Fixed maturity securities - trading	874,380	(40,765)		(304,273)	(505,879)	23,463	1,646
Total fixed maturity securities	4,599,244	(82,279)	(234,559)	(147,999)	(2,419,296)	1,715,111	1,646
Equity securities	18,135		(19)	58,761	(518)	76,359	
Other long-term investments (1)	2,951	147,001		(1,892)		148,060	147,001
Short-term investments	66,327		(612)		(64,359)	1,356	
Total investments	4,686,657	64,722	(235,190)	(91,130)	(2,484,173)	1,940,886	148,647
Total assets measured at fair value on a recurring basis	$ 4,686,657	$ 64,722	$ (235,190)	$ (91,130)	$ (2,484,173)	$ 1,940,886	$ 148,647
Liabilities:							
Annuity account balances (2)	$ 143,634	$ (4,365)	$	$ (6,155)	$	$ 154,154	$ (4,365)
Other liabilities (1)	39,168	23,840		1,898		13,430	23,840
Total liabilities measured at fair value on a recurring basis	$ 182,802	$ 19,475	$	$ (4,257)	$	$ 167,584	$ 19,475

(1) Represents certain freestanding and embedded derivatives

(2) Represents liabilities related to equity indexed annuities

(3) Includes asset-backed securities, commercial mortgage-backed securities, and residential mortgage-backed securities.

Total realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either realized investment gains (losses) within the Consolidated Condensed Statements of Income (Loss) or other comprehensive income (loss) within shareowners equity based on the appropriate accounting treatment for the item.

Purchases, sales, issuances and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily relates to purchases and sales of fixed maturity securities, and issuances and settlements of equity indexed annuities.

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. The asset transfers in the table(s) above primarily related to positions moved from Level 3 to Level 2 as the Company determined that certain inputs were observable.

The amount of total gains (losses) for assets and liabilities still held as of the reporting date primarily represents changes in fair value of trading securities and certain derivatives that exist as of the reporting date, and the change in fair value of equity indexed annuities.

Table of Contents

Estimated Fair Value of Financial Instruments

The carrying amounts and estimated fair values of its financial instruments as of the periods shown below are as follows:

	As of			
	September 30, 2009		December 31, 2008	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
	(Dollars In Thousands)			
Assets				
Mortgage loans on real estate	$ 3,849,349	$ 4,215,129	$ 3,848,288	$ 4,571,259
Policy loans	788,402	788,402	810,933	810,933
Liabilities				
Stable value product account balances	$ 3,863,329	$ 4,081,368	$ 4,960,405	$ 5,104,268
Annuity account balances	9,726,082	9,429,040	9,357,427	8,976,336
Debt				
Bank borrowings	$ 245,000	$ 245,000	$ 155,000	$ 155,000
Senior and Medium-Term Notes	559,852	544,159	559,852	452,382
Subordinated debt securities	524,743	431,017	524,743	285,103
Non-recourse funding obligations	1,375,000	1,151,434	1,375,000	713,742

Except as noted below, fair values were estimated using quoted market prices.

Fair Value Measurements

Mortgage loans on real estate

The Company estimates the fair value of mortgage loans using an internally developed model. This model includes inputs derived by the Company based on assumed discount rates relative to the Company s current mortgage loan lending rate and an expected cash flow analysis based on a review of the mortgage loan terms. The model also contains the Company s determined representative risk adjustment assumptions related to nonperformance and liquidity risks.

Policy loans

The Company believes the fair value of policy loans approximates book value. Policy loans are funds provided to policy holders in return for a claim on the account value of the policy. The funds provided are limited to a certain percent of the account balance. The nature of policy loans is to have low default risk as the loans are fully collateralized by the value of the policy. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policy account balance. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value.

Stable value product and Annuity account balances

The Company estimates the fair value of stable value product account balances and annuity account balances using models based on discounted expected cash flows. The discount rates used in the models were based on a current market rate for similar financial instruments.

Bank borrowings

The Company believes the fair value of its bank borrowings approximates carrying value. These borrowings that are outstanding under the Company s credit facility are discussed further in Item 2, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, Liquidity and Capital Resources .

Table of Contents

Non-recourse funding obligations

As of September 30, 2009, the Company estimated the fair value of its non-recourse funding obligations using internal discounted cash flow models. The discount rates used in the model were based on a current market yield for similar financial instruments.

12. INCOME TAXES

There have been no material changes to the balance of unrecognized income tax benefits which impacted earnings during the three and nine months ended September 30, 2009. The Company does not expect to have any material adjustments, within the next twelve months, to its balance of unrecognized income tax benefits in any of the tax jurisdictions in which it conducts its business operations.

The Company has computed its effective income tax rate for the nine months ended September 30, 2009, based upon its estimate of its annual 2009 income. The effective tax rate for the nine months ended September 30, 2009, was approximately 34.4% compared to a rate of 46.9% for the same period in the prior year. The effective tax rate for the first nine months of 2009 reflects a rate closer to historical rates, while the 2008 rate reflects the effect of the events that led to the Company reporting a net loss in the 2008 period.

Based on the Company s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize its deferred tax assets, and therefore the Company did not record a valuation allowance against its material deferred tax assets as of September 30, 2009.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to interest rate risk, inflation risk, currency exchange risk, and equity market risk. These strategies are developed through the asset/liability committee s analysis of data from financial simulation models and other internal and industry sources and are then incorporated into the Company s risk management program.

Derivative instruments expose the Company to credit and market risk and could result in material changes from period to period. The Company minimizes its credit risk by entering into transactions with highly rated counterparties. The Company manages the market risk associated with interest rate and foreign exchange contracts by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. The Company monitors its use of derivatives in connection with its overall asset/liability management programs and strategies.

Derivative instruments that are used as part of the Company s interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate options, and interest rate swaptions. The Company s inflation risk management strategy involves the use of swaps that requires the Company to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index (CPI). The Company uses foreign currency swaps to manage its exposure to changes in the value of foreign currency denominated stable value contracts. No foreign currency swaps remain outstanding. The Company also uses S&P 500® options to mitigate its exposure to the value of equity indexed annuity contracts.

The Company has sold credit default protection on liquid traded indices to enhance the return on its investment portfolio. These credit default swaps create credit exposure similar to an investment in publicly issued fixed maturity cash investments. Outstanding credit default swaps relate to the Investment Grade Series 9 Index and have terms to December 2017. Defaults within the Investment Grade Series 9 Index that exceeded the 10% attachment point would require the Company to perform under the credit default swaps, up to the 15% exhaustion point. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under the credit derivatives is $25.0 million. As of September 30, 2009, the fair value of the credit derivatives was a liability of $2.7 million. As of September 30, 2009, the Company had collateral of $3.7 million posted with the counterparties to credit default swaps. The collateral is counterparty specific and is not tied to any one contract. If the credit default swaps needed to be settled immediately, the Company would not need to post an additional payment.

Table of Contents

As a result of the ongoing disruption in the credit markets, the fair value of these derivatives has fluctuated in response to changing market conditions. The Company believes that the unrealized loss recorded on the $25.0 million notional of credit default swaps is not indicative of the economic value of the investment.

U.S. GAAP requires that all derivative instruments be recognized in the balance sheet at fair value. The Company records its derivative instruments on the balance sheet in other long-term investments and other liabilities . The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge related to foreign currency exposure. For derivatives that are designated and qualify as cash flow hedges, the effective portion of the gain or loss realized on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction impacts earnings. The remaining gain or loss on these derivatives is recognized as ineffectiveness in current earnings during the period of the change. For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of change in fair values. Effectiveness of the Company s hedge relationships is assessed on a quarterly basis. The Company accounts for changes in fair values of derivatives that are not part of a qualifying hedge relationship through earnings in the period of change. Changes in the fair value of derivatives that are recognized in current earnings are reported in realized investment gains (losses) - derivative financial instruments .

Cash-Flow Hedges

- During 2004 and 2005, in connection with the issuance of inflation adjusted funding agreements, the Company entered into swaps to convert the floating CPI-linked interest rate on the contracts to a fixed rate. The Company paid a fixed rate on the swap and received a floating rate equal to the CPI change paid on the funding agreements.

- During 2006, the Company entered into swaps to convert CMT (Constant Maturity Treasury) based floating rate interest payments on funding agreements to fixed rate interest payments.

- During 2006 and 2007, the Company entered into interest rate swaps to convert LIBOR based floating rate interest payments on funding agreements to fixed rate interest payments.

Other Derivatives

The Company also uses various other derivative instruments for risk management purposes that either do not qualify for hedge accounting treatment or have not currently been designated by the Company for hedge accounting treatment. Changes in the fair value of these derivatives are recognized in earnings during the period of change.

- The Company uses interest rate swaps to convert the fixed interest rate payments on certain of its debt obligations to a floating rate. Interest is exchanged periodically on the notional value, with the Company receiving the fixed rate and paying various LIBOR-based rates.

- The Company uses certain foreign currency swaps, which are not designated as cash flow hedges, to mitigate its exposure to changes in currency rates.

- The Company also uses short positions in interest rate futures to mitigate the interest rate risk associated with its mortgage loan commitments.

- The Company uses certain interest rate swaps to mitigate interest rate risk related to floating rate exposures.

- The Company uses other swaps, options, and swaptions to manage the interest rate risk in its mortgage-backed security portfolio.

Table of Contents

- The Company is involved in various modified coinsurance and funds withheld arrangements which contain embedded derivatives that must be reported at fair value. Changes in fair value are recorded in current period earnings. The investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had mark-to-market changes which offset the gains or losses on these embedded derivatives.

- The Company utilizes S&P 500® options to mitigate the risk associated with equity indexed annuity contracts.

- The Company markets certain variable annuity products with a GMWB rider. The GMWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

- The Company entered into credit default swaps and various other derivative positions to enhance the return on its investment portfolio.

The tables below present information about the nature and accounting treatment of the Company s primary derivative financial instruments and the location in and effect on the consolidated condensed financial statements for the periods presented below:

	As of September 30, 2009	
	Notional Amount	**Fair Value**
	(Dollars In Thousands)	
Other long-term investments		
Derivatives not designated as hedging instruments:		
Interest rate	$ 125,000	$ 15,943
Embedded derivative - Modco reinsurance treaties	1,945,208	37,709
Embedded derivative - GMWB	389,719	4,524
Embedded derivative - GMAB	6,611	19
Other	89,117	10,495
	$ 2,555,655	$ 68,690
Other liabilities		
Cash flow hedges:		
Inflation	$ 343,526	$ 29,675
Interest rate	175,000	11,376
Derivatives not designated as hedging instruments:		
Credit default swaps	25,000	2,711
Interest rate	110,000	9,005
Embedded derivative - Modco reinsurance treaties	1,046,397	105,169
Embedded derivative GMWB	1,290,014	36,483
Embedded derivative GMAB	8,706	127
Other	35,064	5,279
	$ 3,033,707	$ 199,825

(1) Additional information on derivatives not designated as hedging instruments is referenced under the ASC Derivatives and Hedging Topic.

Table of Contents

Gain (Loss) on Derivatives in Cash Flow Hedging Relationships

	For The Three Months Ended September 30, 2009			For The Nine Months Ended September 30, 2009		
	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income
	(Dollars In Thousands)					
Gain (loss) recognized in other comprehensive income (effective portion):						
Interest rate	$	$	$ (5,822)	$	$	$ (1,958)
Inflation			(3,049)			21,987
Gain (loss) reclassified from accumulated other comprehensive income into income (effective portion):						
Interest rate	$	$ (1,979)	$	$	$ (5,876)	$
Inflation		(3,682)			(8,151)	
Gain (loss) recognized in income (ineffective portion):						
Inflation	$ 87	$	$	$ 1,041	$	$

Based on the expected cash flows of the underlying hedged items, the Company expects to reclassify $8.9 million out of accumulated other comprehensive income into earnings during the next twelve months.

Gain (Loss) on Derivatives Not Designated as Hedging Instruments

Realized investment gains (losses) - derivative financial instruments

	For The Three Months Ended September 30, 2009	For The Nine Months Ended September 30, 2009
	(Dollars In Thousands)	
Interest rate risk		
Mortgage loan commitments	$	$ 6,889
Interest rate swaps	(8,008)	28,351
Credit risk	182	2,733
Embedded derivative - Modco reinsurance treaties	(158,937)	(244,726)
Embedded derivative - GMWB	(31,210)	1,132
Other	2,433	4,523
	$ (195,540)	$ (201,098)

(1) Additional information on derivatives not designated as hedging instruments is referenced under the ASC Derivatives and Hedging Topic.

Realized investment gains (losses) - all other investments

	For The Three Months Ended September 30, 2009	For The Nine Months Ended September 30, 2009
	(Dollars In Thousands)	
Fixed income Modco trading portfolio(1)	$ 164,732	$ 273,639

(1) The Company elected to include the use of alternate disclosures for trading activities.

Table of Contents

14. SUBSEQUENT EVENTS

On October 9, 2009, the Company closed on offerings of $400 million of its senior notes due in 2019, $100 million of its senior notes due in 2024, and $300 million of its senior notes due in 2039, for an aggregate principal amount of $800 million. The Notes were offered and sold pursuant to Protective s shelf registration statement on Form S-3.

The Company used the net proceeds from the offering of the Notes to purchase $800 million in aggregate principal amount of newly-issued surplus notes of one of its indirect wholly owned subsidiaries, Golden Gate Captive Insurance Company (Golden Gate). Golden Gate used a portion of the proceeds from the sale of the surplus notes to the Company to repurchase at a discount $800 million in aggregate principal amount of its outstanding Series A floating rate surplus notes that were held by third parties. This resulted in a $126 million pre-tax gain, net of deferred issue costs, that will be recognized in the fourth quarter of 2009.

As a result of these transactions, the Company is the sole holder of the Golden Gate surplus notes.

On November 3, 2009, Lloyds Banking Group Plc. (Lloyds) and Royal Bank of Scotland Group Plc. (RBS) announced a series of proposed transactions to increase their core Tier 1 capital levels. These transactions primarily consist of rights offerings and exchanges/deferrals on certain hybrid securities. As of September 30, 2009, our hybrid holdings in Lloyds had a GAAP amortized cost of $64.1 million and a market value of $38.0 million. Additionally, our hybrid holdings in RBS had a GAAP amortized cost of $14.8 million and a market value of $7.4 million. These amounts include our Modco trading portfolio holdings which had a GAAP amortized cost of $7.8 million and a market value of $4.5 million.

The Company has evaluated events subsequent to September 30, 2009, and through the consolidated condensed financial statement issuance date of November 6, 2009. The Company has not evaluated subsequent events after that date for presentation in these consolidated condensed financial statements.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1, *Financial Statements (Unaudited)*, of this Quarterly Report on Form 10-Q and our audited consolidated financial statements for the year ended December 31, 2008, included in our Annual Report on Form 10-K.

For a more complete understanding of our business and current period results, please read the following MD&A in conjunction with our latest Annual Report on Form 10-K and other filings with the United States Securities and Exchange Commission (the SEC).

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 shareowners equity.

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

This report reviews our financial condition and results of operations including our liquidity and capital resources. Historical information is presented and discussed and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements instead of historical facts and may contain words like believe, expect, estimate, project, budget, forecast, anticipate, plan, will, other words, phrases, or expressions with similar meaning. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise. For more information about the risks, uncertainties and other factors that could affect our future results, please see Part I, Item II, *Risks and Uncertainties* and Part II, Item 1A, *Risk Factors*, of this report, as well as Part I, Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

OVERVIEW

Our business

We are a holding company headquartered in Birmingham, Alabama, with subsidiaries that provide financial services through the production, distribution, and administration of insurance and investment products. Founded in 1907, Protective Life Insurance Company (PLICO) is our largest operating subsidiary. Unless the context otherwise requires, Company, we, us, or our refers to the consolidated group of Protective Life Corporation and our subsidiaries.

We operate several business segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. We periodically evaluate our operating segments, as prescribed in the Accounting Standards Codification (ASC) Segment Reporting Topic, and make adjustments to our segment reporting as needed.

Our operating segments are Life Marketing, Acquisitions, Annuities, Stable Value Products, Asset Protection, and Corporate and Other.

- ***Life Marketing*** - We market 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, and independent marketing organizations.

- ***Acquisitions*** - We focus on acquiring, converting, and servicing policies acquired from other companies. The segment s primary focus is on life insurance policies and annuity products sold to individuals. In the ordinary course of business, the Acquisitions segment regularly considers

Table of Contents

acquisitions of blocks of policies or insurance companies. The level of the segment s acquisition activity is predicated upon many factors, including available capital, operating capacity, and market dynamics. Policies acquired through the Acquisition segment are closed blocks of business (no new policies are being marketed). Therefore, earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

- ***Annuities*** - We market and support fixed and variable annuity products. These products are primarily sold through broker-dealers, financial institutions and independent agents and brokers.

- ***Stable Value Products*** - We sell guaranteed funding agreement (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.

- ***Asset Protection*** - We primarily market extended service contracts and credit life and disability insurance to protect consumers investments in automobiles, watercraft, and recreational vehicles. In addition, the segment markets a guaranteed asset protection (GAP) product.

- ***Corporate and Other*** - This segment primarily consists of net investment income, including the impact of carrying excess liquidity, and expenses not attributable to the segments above (including net investment income on capital and interest on debt) and a trading portfolio that was previously part of a variable interest entity. This segment also includes earnings from several non-strategic lines of business (primarily cancer insurance, residual value insurance, surety insurance, and group annuities), various investment-related transactions, and the operations of several small subsidiaries.

EXECUTIVE SUMMARY

Our core operating fundamentals contributed to our continued success in the third quarter and to a positive net income of $140.5 million and solid operating income in our business segments for the nine months ended September 30, 2009. While we are encouraged by our underlying business model, we continue to see challenges ahead given the current environment, and therefore have a continued focus on our overall capital strategy. Our strategy is designed to weather the current economic climate and includes shifting our focus to products that are less capital intensive, implementing pricing initiatives, maintaining a strong distribution network, and reducing sales with less attractive spread levels. In addition, during the second quarter of 2009, we issued 15.5 million shares of common stock through a public offering. This offering generated approximately $132.8 million of net proceeds to the Company.

During the nine months ended September 30, 2009, our pre-tax operating earnings increased $17.9 million compared to the nine months ended September 30, 2008, primarily as a result of $106.6 million of favorable fair value changes recorded on our trading portfolio, equity indexed annuity product line and embedded derivatives associated with the variable annuity GMWB rider, compared to the prior year s quarter.

The following table reflects a reconciliation of after-tax operating income to net income (loss) for the periods presented:

(Dollars In Thousands; Net Of Income Tax)	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008	Variance
After-tax Operating Income	$ 190,335	$ 183,178	$ 7,157
Realized investment gains (losses) and related amortization			
Investments	85,417	(319,432)	404,849
Derivatives	(135,275)	110,312	(245,587)
Net Income (Loss)	$ 140,477	$ (25,942)	$ 166,419

For more information regarding our realized investment and derivative gains (losses), refer to the Realized Gains and Losses discussion on page 81.

Table of Contents

During the third quarter of 2009, we experienced significant improvement in our net unrealized loss position. As of September 30, 2009, our net unrealized loss position was $476.8 million, prior to tax and deferred acquisition costs (DAC) offsets and $305.7 million, after tax and DAC offsets. This improvement was caused by spread tightening during the quarter.

Subsequent to the third quarter of 2009, we issued $800 million of senior notes and used the net proceeds to purchase $800 million of newly-issued surplus notes from Golden Gate Captive Insurance Company (Golden Gate). Golden Gate concurrently purchased at a discount $800 million of its floating rate surplus notes held by third parties. The repurchase transactions are expected to result in an estimated pre-tax gain of $126 million, or $0.94 per diluted share, to be recognized in the fourth quarter of 2009. For more information regarding this transaction, refer to Note 14, *Subsequent Events*.

Significant financial information related to each of our segments is included in Results of Operations .

RISKS AND UNCERTAINTIES

The factors which could affect our future results include, but are not limited to, general economic conditions and the following risks and uncertainties:

General

- exposure to the risks of natural disasters, pandemics, malicious and terrorist acts that could adversely affect our operations and results;
- computer viruses, network security breaches, disasters or other unanticipated events could affect our data processing systems or those of our business partners and could damage our business and adversely affect our financial condition and results of operations;
- actual experience may differ from management s assumptions and estimates and negatively affect our results;
- we may not realize our anticipated financial results from our acquisitions strategy;
- we are dependent on the performance of others;
- our risk management policies and procedures could leave us exposed to unidentified or unanticipated risk, which could negatively affect our business or result in losses;

Financial environment

- interest rate fluctuations could negatively affect our spread income or otherwise impact our business;

- our investments are subject to market, credit, legal, and regulatory risks, which could be heightened during periods of extreme volatility or disruption in the financial and credit markets;

- equity market volatility could negatively impact our business;

- credit market volatility or disruption could adversely impact our financial condition or results from operations;

- our ability to grow depends in large part upon the continued availability of capital;

- we could be adversely affected by a ratings downgrade or other negative action by a ratings organization;

- a loss of policyholder confidence in our insurance subsidiaries could lead to higher than expected levels of policyholder surrenders and withdrawal of funds;

- we could be forced to sell investments at a loss to cover policyholder withdrawals;

- disruption of the capital and credit markets could negatively affect our ability to meet our liquidity and financing needs;

- difficult conditions in the economy generally could adversely affect our business and results from operations;

- continued deterioration of general economic conditions could result in a severe and extended economic recession, which could materially adversely affect our business and results from operations;

- there can be no assurance that the actions of the United States Government or other governmental and regulatory bodies for the purpose of stabilizing the financial markets will achieve their intended effect;

Table of Contents

- we may be required to establish a valuation allowance against our deferred tax assets, which could materially adversely affect our results of operations, financial condition, and capital position;
- we could be adversely affected by an inability to access our credit facility;
- results that differ from expectations or assumptions could adversely impact our investment valuation, financial condition or our results of operations;
- the amount of statutory capital we have and must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly and is sensitive to a number of factors;
- we are a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations and pay dividends;

Industry

- insurance companies are highly regulated and subject to numerous legal restrictions and regulations;
- changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;
- financial services companies are frequently the targets of litigation, including class action litigation, which could result in substantial judgments;
- publicly held companies in general and the financial services industry in particular are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny;
- new accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us;
- reinsurance introduces variability in our statements of income;
- our reinsurers could fail to meet assumed obligations, increase rates or be subject to adverse developments that could affect us;
- policy claims fluctuate from period to period resulting in earnings volatility;

Competition

- operating in a mature, highly competitive industry could limit our ability to gain or maintain our position in the industry and negatively affect profitability;

- our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business;
- a ratings downgrade could adversely affect our ability to compete; and
- we may not be able to protect our intellectual property and could also be subject to infringement claims.

For more information about the risks, uncertainties, and other factors that could affect our future results, please see Part II, Item 1A of this report and our Annual and Quarterly Reports on Forms 10-K and 10-Q.

CRITICAL ACCOUNTING POLICIES

Our accounting policies inherently require the use of judgments relating to a variety of assumptions and estimates, in particular expectations of current and future mortality, morbidity, persistency, expenses, and interest rates. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated financial statements. A discussion of various critical accounting policies that have changed since filing our Form 10-K for the year ended December 31, 2008, is presented below. For a more complete listing of our critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2008.

There were no significant changes to our accounting policies during the nine months ended September 30, 2009, other than those related to credit losses and the Financial Accounting Standards Board (FASB) guidance that was adopted which is referenced under the ASC Investments-Debt Equity Securities Topic, as discussed in Note 2, *Investment Operations*, and the following:

Table of Contents

Guaranteed minimum withdrawal benefits - We establish liabilities for guaranteed minimum withdrawal benefits (GMWB) on our variable annuity products. Accounting principles generally accepted in the United States (U.S. GAAP) requires the GMWB liability to be marked-to-market using current implied volatilities for the equity indices. The methods used to estimate the liabilities employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, our nonperformance risk measure, and market volatility. We assume mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity Guaranteed Minimum Death Benefit (GMDB) Mortality Table. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. In the first quarter of 2009, the assumption for long term volatility used for projection purposes was updated to reflect recent market conditions. The liability calculation was changed to reflect a rate increase for all GMWB policyholders.

RESULTS OF OPERATIONS

In the following discussion, segment operating income (loss) is defined as income before income tax excluding net realized investment gains and losses (net of the related DAC and value of business acquired (VOBA) and participating income from real estate ventures), and the cumulative effect of change in accounting principle. Periodic settlements of derivatives associated with corporate debt and certain investments and annuity products are included in realized gains and losses but are considered part of segment operating income (loss) because the derivatives are used to mitigate risk in items affecting segment operating income (loss). Management believes that segment operating income (loss) provides relevant and useful information to investors, as it represents the basis on which the performance of our business is internally assessed. Although the items excluded from segment operating income (loss) may be significant components in understanding and assessing our overall financial performance, management believes that segment operating income (loss) enhances an investor s understanding of our results of operations by highlighting the income (loss) attributable to the normal, recurring operations of our business. However, segment operating income (loss) should not be viewed as a substitute for U.S. GAAP net income (loss). In addition, our segment operating income (loss) measures may not be comparable to similarly titled measures reported by other companies.

We periodically review and update as appropriate our key assumptions on products using the ASC Financial Services-Insurance Topic, including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization and/or benefits and expenses. The periodic review and updating of assumptions is referred to as unlocking .

Table of Contents

The following table presents a summary of results and reconciles segment operating income (loss) to consolidated net income (loss):

	For The Three Months Ended September 30, 2009	2008	Change	For The Nine Months Ended September 30, 2009	2008	Change
	(Dollars In Thousands)					
Segment Operating Income (Loss)						
Life Marketing	$ 26,544	$ 52,222	(49.2)%	$ 106,233	$ 136,798	(22.3)%
Acquisitions	33,061	33,021	0.1	101,723	101,111	0.6
Annuities	16,075	556	n/m	36,995	12,532	n/m
Stable Value Products	14,339	28,184	(49.1)	51,522	61,945	(16.8)
Asset Protection	5,731	8,186	(30.0)	16,667	24,702	(32.5)
Corporate and Other	(22,826)	(32,173)	(29.1)	(22,425)	(64,239)	(65.1)
Total segment operating income	72,924	89,996	(19.0)	290,715	272,849	6.5
Realized investment gains (losses) - investments(1)(3)	135,388	(350,399)		131,411	(491,434)	
Realized investment gains (losses) - derivatives(2)	(166,676)	100,461		(208,116)	169,711	
Income tax (expense) benefit	(14,051)	59,934		(73,533)	22,932	
Net income (loss)	$ 27,585	$ (100,008)	n/m	$ 140,477	$ (25,942)	n/m

	Three Months 2009	Three Months 2008	Nine Months 2009	Nine Months 2008
(1) Realized investment gains (losses) - investments(3)	$ 134,608	$ (351,102)	$ 129,767	$ (491,558)
Less: related amortization of DAC	(780)	(703)	(1,644)	(124)
	$ 135,388	$ (350,399)	$ 131,411	$ (491,434)
(2) Realized investment gains (losses) - derivatives	$ (195,540)	$ 91,991	$ (201,098)	$ 155,421
Less: settlements on certain interest rate swaps		1,915	3,401	4,185
Less: derivative activity related to certain annuities	(28,864)	(10,385)	3,617	(18,475)
	$ (166,676)	$ 100,461	$ (208,116)	$ 169,711

(3) Includes other-than-temporary impairments of $31.0 million and $161.8 million for the three and nine months ended September 30, 2009, respectively.

For The Three Months Ended September 30, 2009 compared to The Three Months Ended September 30, 2008

Net income for the three months ended September 30, 2009, included a $17.1 million, or 19.0%, decrease in segment operating income. The decrease was primarily related to a $25.7 million decrease in operating income in the Life Marketing segment, a $13.8 million decrease in the Stable Value Products segment and a $2.5 million decrease in operating income in the Asset Protection segment. These decreases were partially offset by an improvement of $15.5 million in operating earnings in the Annuities segment and a $9.3 million increase in the Corporate and Other segment. Changes in fair value related to the Corporate and Other trading portfolio and the Annuities segment increased operating earnings by $10.3 million for the three months ended September 30, 2009.

We experienced net realized losses of $60.9 million for the three months ended September 30, 2009, compared to net realized losses of $259.1 million for the same period of 2008.

- Life Marketing segment operating income was $26.5 million for the three months ended September 30, 2009, representing a decrease of $25.7 million, or 49.2%, from the three months ended September 30, 2008. The decrease was primarily due to lower allocated investment income on the traditional line of business, less favorable mortality, and less favorable annual prospective unlocking in the third quarter of 2009 compared to the third quarter of 2008, which was $7.3 million lower in 2009 than 2008.

- Acquisitions segment operating income was $33.1 million for the three months ended September 30, 2009, an increase of $0.1 million, or 0.1%, compared to the three months ended September 30, 2008, primarily due to lower operating expenses and favorable unlocking of $1.7 million in the third quarter 2009, partially offset by expected runoff of the blocks of business and less favorable mortality results.

- Annuities segment operating income was $16.1 million for the three months ended September 30, 2009, representing an increase of $15.5 million over the three months ended September 30, 2008. This change included a $1.0 million positive variance related to fair value changes on the embedded derivatives associated with the variable annuity GMWB rider. In addition, prospective unlocking of assumptions (DAC, GMWB, bonus interest, etc.) added $6.9 million to earnings for the period, a $9.7 million positive variance. The segment experienced wider spreads and the

Table of Contents

continued growth of the single premium deferred annuity (SPDA) and market value adjusted (MVA) lines, which accounted for a $1.3 million and $1.6 million increase in earnings, respectively.

- Stable Value Products segment operating income was $14.3 million and decreased $13.8 million, or 49.1%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. The decrease in operating earnings resulted from a decline in average account values and lower operating spreads. In addition, no income was generated from the early retirement of funding agreements backing medium-term notes during the third quarter of 2009, compared with $3.0 million in the third quarter of 2008. The operating spread decreased 28 basis points to 142 basis points during the three months ended September 30, 2009, compared to an operating spread of 170 basis points during the three months ended September 30, 2008.

- Asset Protection segment operating income was $5.7 million, representing a decrease of $2.5 million, or 30.0%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. Earnings from core product lines decreased $3.2 million, or 35.8%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. Within the segment s core product lines, service contract earnings declined $3.2 million, or 42.7%, compared to the same period in the prior year, primarily as a result of weak auto and marine sales and higher loss ratios in certain product lines. Credit insurance earnings decreased $0.1 million compared to the prior year primarily due to lower volume and unfavorable loss experience. Earnings from other products increased $0.9 million compared to the same period in the prior year primarily due to release of excess reserves in the runoff inventory protection product (IPP) line partially offset by unfavorable loss experience.

- Corporate and Other segment operating loss was $22.8 million, an improvement of $9.3 million for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. This improvement was primarily due to positive mark-to-market adjustments of $14.1 million on a $322.4 million portfolio of securities designated for trading, representing a $37.6 million more favorable impact than for the three months ended September 30, 2008. This increase was partially offset by reduced yields on a large balance of cash and short-term investments and higher general expenses.

For The Nine Months Ended September 30, 2009 compared to The Nine Months Ended September 30, 2008

Net income for the nine months ended September 30, 2009, included a $17.9 million, or 6.5%, increase in segment operating income. The increase was primarily related to a $41.8 million increase in operating income in the Corporate and Other segment, a $24.5 million improvement in operating earnings in the Annuities segment, and a $0.6 million improvement in the Acquisitions segment. These increases were partially offset by a $30.6 million decrease in the Life Marketing segment, a $10.4 million decrease in the Stable Value Products segment, and an $8.0 million decrease in the Asset Protection segment. Changes in fair value related to the Corporate and Other trading portfolio and the Annuities segment increased operating earnings by $58.3 million in the nine months ended September 30, 2009, compared to the same period in 2008.

We experienced net realized losses of $71.3 million for the nine months ended September 30, 2009, compared to net realized losses of $336.1 million for the same period of 2008.

- Life Marketing segment operating income was $106.2 million for the nine months ended September 30, 2009, representing a decrease of $30.6 million, or 22.3%, from the nine months ended September 30, 2008. The decrease was primarily due to lower allocated investment income on the traditional line of business, less favorable annual prospective unlocking in the third quarter of 2009 compared to the third quarter of 2008, which was $7.3 million lower in 2009 than 2008, and higher insurance company operating expenses. These reductions to income were partially offset by more favorable mortality in 2009 than 2008.

- Acquisitions segment operating income was $101.7 million for the nine months ended September 30, 2009, an increase of $0.6 million, or 0.6%, compared to the nine months ended September 30, 2008, primarily due to lower operating expenses and improved mortality results, partially offset by expected runoff of the blocks of business.

- Annuities segment operating income was $37.0 million for the nine months ended September 30, 2009, compared to $12.5 million for the nine months ended September 30, 2008, an increase of $24.5 million. This change included a favorable $21.5 million variance related to fair value changes, of which $4.2 million related to

Table of Contents

the equity indexed annuity (EIA) product and $17.3 million related to embedded derivatives associated with the variable annuity GMWB rider. Offsetting this favorable change, unfavorable prospective unlocking of assumptions (DAC, GMWB, bonus interest, etc.) reduced earnings by $8.4 million for the nine months ended September 30, 2009. In addition, unfavorable mortality in the segment s single premium immediate annuity (SPIA) block caused a $1.1 million unfavorable variance compared to the nine months ended September 30, 2008. These decreases were partially offset by wider spreads and the continued growth of the SPDA and MVA lines, which accounted for a $6.2 million and $4.3 million increase in earnings, respectively.

- Stable Value Products segment operating income was $51.5 million and decreased $10.4 million, or 16.8%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. The decrease in operating earnings resulted from a decline in average account values, partially offset by higher operating spreads. In addition, $1.9 million in other income was generated from the early retirement of funding agreements backing medium-term notes during the nine months ended September 30, 2009, compared to $3.0 million during the first nine months of 2008. The operating spread increased 10 basis points to 155 basis points during the nine months ended September 30, 2009, compared to an operating spread of 145 basis points during the nine months ended September 30, 2008.

- Asset Protection segment operating income was $16.7 million, representing a decrease of $8.0 million, or 32.5%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. Earnings from core product lines decreased $9.7 million, or 36.6%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. Within the segment s core product lines, service contract earnings declined $10.7 million, or 45.2%, compared to the same period in the prior year, primarily due to weak auto and marine sales and higher loss ratios in certain product lines. Credit insurance earnings decreased $0.3 million, or 18.0%, compared to the prior year. Earnings from other products increased $3.0 million compared to the same period in the prior year primarily due to a decrease in non-recurring litigation costs in the runoff Lender s Indemnity product line and release of excess reserves in the runoff IPP product line.

- Corporate and Other segment operating income loss decreased $41.8 million for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, primarily due to positive mark-to-market adjustments of $43.5 million on the trading portfolio, representing a $83.0 million more favorable impact than for the nine months ended September 30, 2008. This increase was partially offset by reduced yields on a large balance of cash and short-term investments and higher general expenses.

Table of Contents

Life Marketing

Segment results of operations

Segment results were as follows:

	For The Three Months Ended September 30, 2009	For The Three Months Ended September 30, 2008	Change	For The Nine Months Ended September 30, 2009	For The Nine Months Ended September 30, 2008	Change
			(Dollars In Thousands)			
REVENUES						
Gross premiums and policy fees	$ 379,823	$ 372,674	1.9%	$ 1,152,676	$ 1,109,264	3.9%
Reinsurance ceded	(202,708)	(205,699)	(1.5)	(650,874)	(669,303)	(2.8)
Net premiums and policy fees	177,115	166,975	6.1	501,802	439,961	14.1
Net investment income	89,035	88,825	0.2	273,395	260,770	4.8
Other income	19,587	23,507	(16.7)	59,585	74,562	(20.1)
Total operating revenues	285,737	279,307	2.3	834,782	775,293	7.7
BENEFITS AND EXPENSES						
Benefits and settlement expenses	215,567	212,201	1.6	600,078	551,840	8.7
Amortization of deferred policy acquisition costs	40,142	5,009	n/m	109,274	59,166	84.7
Other operating expenses	3,484	9,875	(64.7)	19,197	27,489	(30.2)
Total benefits and expenses	259,193	227,085	14.1	728,549	638,495	14.1
OPERATING INCOME	26,544	52,222	(49.2)	106,233	136,798	(22.3)
INCOME BEFORE INCOME TAX	$ 26,544	$ 52,222	(49.2)	$ 106,233	$ 136,798	(22.3)

Table of Contents

The following table summarizes key data for the Life Marketing segment:

	For The Three Months Ended September 30, 2009	2008	Change	For The Nine Months Ended September 30, 2009	2008	Change
			(Dollars In Thousands)			
Sales By Product						
Traditional	$ 25,589	$ 23,039	11.1%	$ 74,842	$ 76,928	(2.7)%
Universal life	15,383	11,092	38.7	40,998	38,336	6.9
Variable universal life	912	1,222	(25.4)	2,408	4,505	(46.5)
	$ 41,884	$ 35,353	18.5	$ 118,248	$ 119,769	(1.3)
Sales By Distribution Channel						
Brokerage general agents	$ 26,301	$ 20,805	26.4	$ 73,548	$ 68,746	7.0
Independent agents	6,923	7,403	(6.5)	21,287	25,586	(16.8)
Stockbrokers / banks	7,753	6,587	17.7	21,435	22,341	(4.1)
BOLI / other	907	558	62.5	1,978	3,096	(36.1)
	$ 41,884	$ 35,353	18.5	$ 118,248	$ 119,769	(1.3)
Average Life Insurance In-force(1)						
Traditional	$ 492,663,792	$ 477,021,367	3.3	$ 488,097,799	$ 470,876,402	3.7
Universal life	53,218,615	52,655,080	1.1	53,105,121	52,731,566	0.7
	$ 545,882,407	$ 529,676,447	3.1	$ 541,202,920	$ 523,607,968	3.4
Average Account Values						
Universal life	$ 5,346,218	$ 5,297,640	0.9	$ 5,349,260	$ 5,250,215	1.9
Variable universal life	279,935	311,716	(10.2)	258,323	324,647	(20.4)
	$ 5,626,153	$ 5,609,356	0.3	$ 5,607,583	$ 5,574,862	0.6
Traditional Life Mortality Experience(2)	$ (4,911)	$ (53)		$ 3,991	$ 866	
Universal Life Mortality Experience(2)	$ 1,305	$ 2,005		$ 4,295	$ 3,651	

(1) Amounts are not adjusted for reinsurance ceded.

(2) Represents the estimated pre-tax earnings impact resulting from mortality variances. We periodically review and update as appropriate our key assumptions in calculating mortality. Changes to these assumptions result in adjustments, which may increase or decrease previously reported mortality amounts.

Operating expenses detail

Other operating expenses for the segment were as follows:

	For The Three Months Ended September 30, 2009	2008	Change	For The Nine Months Ended September 30, 2009	2008	Change
			(Dollars In Thousands)			
Insurance Companies:						

First year commissions	$ 48,753	$ 44,007	10.8%	$ 135,930	$ 147,258	(7.7)%
Renewal commissions	8,966	9,660	(7.2)	27,264	28,225	(3.4)
First year ceding allowances	(2,587)	(4,234)	(38.9)	(11,989)	(14,810)	(19.0)
Renewal ceding allowances	(52,271)	(52,713)	(0.8)	(160,341)	(166,149)	(3.5)
General & administrative	44,966	37,217	20.8	119,923	118,647	1.1
Taxes, licenses, and fees	7,847	7,659	2.5	22,599	22,391	0.9
Other operating expenses incurred	55,674	41,596	33.8	133,386	135,562	(1.6)
Less: commissions, allowances & expenses capitalized	(71,648)	(54,792)	30.8	(173,618)	(179,022)	(3.0)
Other insurance company operating expenses	(15,974)	(13,196)	21.1	(40,232)	(43,460)	(7.4)
Marketing Companies:						
Commissions	14,384	18,423	(21.9)	44,047	58,185	(24.3)
Other operating expenses	5,074	4,648	9.2	15,382	12,764	20.5
Other marketing company operating expenses	19,458	23,071	(15.7)	59,429	70,949	(16.2)
Other operating expenses	$ 3,484	$ 9,875	(64.7)	$ 19,197	$ 27,489	(30.2)

Table of Contents

For The Three Months Ended September 30, 2009 compared to The Three Months Ended September 30, 2008

Segment operating income

Operating income was $26.5 million for the three months ended September 30, 2009, representing a decrease of $25.7 million, or 49.2%, from the three months ended September 30, 2008. The decrease was primarily due to lower allocated investment income on the traditional line of business, less favorable mortality, and less favorable annual prospective unlocking in the third quarter of 2009 compared to the third quarter of 2008, which was $7.3 million lower in 2009 than 2008.

Operating revenues

Total revenues for the three months ended September 30, 2009, increased $6.4 million, or 2.3%, compared to the three months ended September 30, 2008. This increase was the result of higher premiums and policy fees in the segment s traditional and universal life lines, partially offset by lower other income due to lower sales in the segment s marketing companies.

Net premiums and policy fees

Net premiums and policy fees increased by $10.1 million, or 6.1%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, primarily due to an increase in retention levels on certain traditional life products and continued growth in universal life in-force business. Beginning in the third quarter of 2005, we reduced our reliance on reinsurance by changing from coinsurance to yearly renewable term reinsurance agreements and increased the maximum amount retained on any one life from $500,000 to $1,000,000 on certain of our newly written traditional life products (products written during the third quarter of 2005 and later). In addition to increasing net premiums, this change results in higher benefits and settlement expenses, and causes greater variability in financial results due to fluctuations in mortality results. Our maximum retention level for newly issued universal life products is generally $1,000,000. During 2008, we increased our retention limit to $2,000,000 on certain of our traditional and universal life products.

Net investment income

Net investment income in the segment increased $0.2 million, or 0.2%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. The increase reflects the growth related to universal life liabilities partly offset by lower investment income allocated to traditional lines based on lower traditional statutory reserves.

Other income

Other income decreased $3.9 million, or 16.7%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. The decrease relates primarily to lower broker-dealer revenues compared to 2008 levels due to less favorable market conditions.

Benefits and settlement expenses

Benefits and settlement expenses increased by $3.4 million, or 1.6%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, due to growth in retained life insurance in-force, increased retention levels on certain newly written traditional life products and higher credited interest on UL products resulting from increases in account values, partly offset by a reduction related to prospective unlocking in the third quarter of 2009 compared to the third quarter of 2008. The estimated mortality impact to earnings, related to traditional and universal life products, for the three months ended September 30, 2009, was unfavorable by $3.6 million, and was approximately $5.6 million less favorable than the estimated mortality impact on earnings for the three months ended September 30, 2008.

Amortization of DAC

DAC amortization increased $35.1 million for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. The increase primarily relates to growth in retained life insurance in-

Table of Contents

force compared to 2008 and more favorable annual prospective unlocking in the third quarter of 2008 compared to the third quarter of 2009.

Other operating expenses

Other operating expenses decreased $6.4 million, or 64.7%, for the three months ended September 30, 2009 compared to the three months ended September 30, 2008. This decrease reflects lower marketing company expenses associated with lower broker dealer sales and slightly lower insurance company expenses.

Sales

Sales for the segment increased $6.5 million, or 18.5%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. Universal life sales increased $4.3 million, or 38.7%, for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, primarily due to an increased emphasis on the product line. In addition, variable universal life sales were subject to unfavorable market conditions and were $0.3 million lower for the three months ended September 30, 2009, compared to the three months ended September 30, 2008.

For The Nine Months Ended September 30, 2009 compared to The Nine Months Ended September 30, 2008

Segment operating income

Segment operating income was $106.2 million for the nine months ended September 30, 2009, representing a decrease of $30.6 million, or 22.3%, from the nine months ended September 30, 2008. The decrease was primarily due to lower allocated investment income on the traditional line of business, less favorable annual prospective unlocking in the third quarter of 2009 compared to the third quarter of 2008, which was $7.3 million lower in 2009 than 2008, and higher insurance company operating expenses. These reductions to income were partially offset by more favorable mortality in 2009 than 2008.

Operating revenues

Total revenues for the nine months ended September 30, 2009, increased $59.5 million, or 7.7%, compared to the nine months ended September 30, 2008. This increase was the result of higher premiums and policy fees in the segment s traditional and universal life lines and higher investment income primarily related to the universal life product line, due to increases in net in-force reserves, and was partially offset by lower other income due to reduced sales in the segment s marketing companies.

Net premiums and policy fees

Net premiums and policy fees increased by $61.8 million, or 14.1%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, primarily due to an increase in retention levels on certain traditional life products and growth in traditional and universal life in-force.

Net investment income

Net investment income in the segment increased $12.6 million, or 4.8%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. The increase reflects the growth related to universal life liabilities, partly offset by lower investment income allocated to traditional lines based on lower traditional statutory reserves.

Other income

Other income decreased $15.0 million, or 20.1%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. The decrease relates primarily to lower broker-dealer revenues compared to 2008 levels due to less favorable market conditions.

Table of Contents

Benefits and settlement expenses

Benefits and settlement expenses increased by $48.2 million, or 8.7%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, due to growth in retained life insurance in-force, increased retention levels on certain newly written traditional life products and higher credited interest on UL products resulting from increases in account values, partly offset by a lower increase due to prospective unlocking in the third quarter of 2009 compared to the third quarter of 2008. The estimated mortality impact to earnings, related to traditional and universal life products, for the nine months ended September 30, 2009, was favorable by $8.3 million, and was approximately $3.8 million more favorable than the estimated mortality impact on earnings for the nine months ended September 30, 2008.

Amortization of DAC

DAC amortization increased $50.1 million, or 84.7%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. The increase primarily relates to growth in retained life insurance in-force compared to 2008 and more favorable annual prospective unlocking in the third quarter of 2008 compared to the third quarter of 2009.

Other operating expenses

Other operating expenses decreased $8.3 million, or 30.2%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. This decrease reflects lower marketing company expenses associated with lower broker dealer sales, partly offset by higher insurance company expenses.

Sales

Sales for the segment decreased $1.5 million, or 1.3%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, due to a decline in sales across product lines. Lower sales levels of traditional products were primarily the result of pricing changes implemented on certain of our products and less favorable market conditions. Universal life sales declined $2.7 million, or 6.9%, for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, primarily due to competitive pressures in all channels and less favorable market conditions, partly offset by increased focus on the product line. In addition, variable universal life sales were subject to unfavorable market conditions and were $2.1 million lower for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008.

Reinsurance

Currently, the Life Marketing segment reinsures significant amounts of its life insurance in-force. Pursuant to the underlying reinsurance contracts, reinsurers pay allowances to the segment as a percentage of both first year and renewal premiums. Reinsurance allowances represent the amount the reinsurer is willing to pay for reimbursement of acquisition costs incurred by the direct writer of the business. A portion of reinsurance allowances received is deferred as part of DAC and a portion is recognized immediately as a reduction of other operating expenses. As the non-deferred portion of allowances reduces operating expenses in the period received, these amounts represent a net increase to operating income during that period.

Reinsurance allowances do not affect the methodology used to amortize DAC or the period over which such DAC is amortized. However, they do affect the amounts recognized as DAC amortization. DAC on universal life-type, limited-payment long duration and investment contracts business is amortized based on the estimated gross profits of the policies in-force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore impact DAC amortization business. Deferred reinsurance allowances on business as required by the ASC Financial Services-Insurance Topic are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in force. Thus, deferred reinsurance allowances on policies as required under the Financial Services-Insurance Topic impact DAC amortization.

Table of Contents

Impact of reinsurance

Reinsurance impacted the Life Marketing segment line items as shown in the following table:

Life Marketing Segment

Line Item Impact of Reinsurance

	For The Three Months Ended September 30, 2009	For The Three Months Ended September 30, 2008	For The Nine Months Ended September 30, 2009	For The Nine Months Ended September 30, 2008
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	$ (202,708)	$ (205,699)	$ (650,874)	$ (669,303)
BENEFITS AND EXPENSES				
Benefit and settlement expenses	(184,794)	(184,567)	(653,683)	(709,321)
Amortization of deferred policy acquisition costs	(7,015)	(12,430)	(36,236)	(32,528)
Other operating expenses (1)	(39,379)	(33,661)	(108,394)	(104,531)
Total benefits and expenses	(231,188)	(230,658)	(798,313)	(846,380)
NET IMPACT OF REINSURANCE (2)	$ 28,480	$ 24,959	$ 147,439	$ 177,077
Allowances received	$ (54,858)	$ (56,947)	$ (172,331)	$ (180,958)
Less: Amount deferred	15,479	23,286	63,937	76,427
Allowances recognized (ceded other operating expenses) (1)	$ (39,379)	$ (33,661)	$ (108,394)	$ (104,531)

(1) Other operating expenses ceded per the income statement are equal to reinsurance allowances recognized after capitalization.

(2) Assumes no investment income on reinsurance. Foregone investment income would substantially reduce the favorable impact of reinsurance. We estimate that the impact of foregone investment income would reduce the net impact of reinsurance by 80% to 150%.

The table above does not reflect the impact of reinsurance on our net investment income. By ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming companies profitability on the business we cede. The net investment income impact to us and the assuming companies has not been quantified. The impact of including foregone investment income would be to substantially reduce the favorable net impact of reinsurance reflected above. We estimate that the impact of foregone investment income would be to reduce the net impact of reinsurance presented in the table above by 80% to 150%. The Life Marketing segment s reinsurance programs do not materially impact the other income line of our income statement.

As shown above, reinsurance had a favorable impact on the Life Marketing segment s operating income for the periods presented above. The impact of reinsurance is largely due to our quota share coinsurance program in place prior to mid-2005. Under that program, generally 90% of the segment s traditional new business was ceded to reinsurers. Since mid-2005, a much smaller percentage of overall term business was ceded due to our change in reinsurance strategy on traditional business discussed previously. As a result of that change, the relative impact of reinsurance on the Life Marketing segment s overall results is expected to decrease over time. While the significance of reinsurance is expected to decline over time, the overall impact of reinsurance for a given period may fluctuate due to variations in mortality and unlocking of balances under the ASC Financial Services-Insurance Topic.

Table of Contents

For The Three Months Ended September 30, 2009 compared to The Three Months Ended September 30, 2008

Premiums and policy fees ceded had been rising over a number of years with increases in our in-force blocks of traditional and universal life business. Beginning in mid-2005, we changed our reinsurance approach in our traditional life product lines. Instead of generally ceding 90% of new business issued before that date, we began purchasing yearly renewable term on risks in excess of $1 million (now increased to $2 million). This had the effect of reducing reinsurance on new policies issued. The decrease in ceded premiums above for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, was caused primarily by lower ceded traditional life premiums and policy fees of $2.5 million.

Ceded benefits and settlement expenses were slightly higher for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, as decreased ceded claims offset higher changes in ceded reserves. Traditional ceded benefits increased $69.0 million for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, due to a larger increase in ceded reserves, partly offset by lower ceded death benefits. Universal life ceded benefits decreased $68.2 million for the three months ended September 30, 2009, compared to the three months ended September 30, 2008 due to changes in ceded reserves and lower ceded claims. Ceded universal life claims were $4.7 million lower for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. Ceded benefits and settlement expenses will fluctuate over time, largely as a function of the segment s overall variations in death benefits incurred.

Ceded amortization of deferred policy acquisitions costs decreased for the three months ended September 30, 2009, compared to the same period in 2008, primarily due to differences in unlocking between the two periods.

Ceded other operating expenses are based on allowances received from reinsurers. Total allowances received for the three months ended September 30, 2009, were flat compared to the three months ended September 30, 2008.

For The Nine Months Ended September 30, 2009 compared to The Nine Months Ended September 30, 2008

The decrease in ceded premiums above for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, was caused primarily by lower ceded traditional life premiums and policy fees of $18.2 million.

Ceded benefits and settlement expenses were lower for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, due to lower increases in ceded reserves and decreased ceded claims. Traditional ceded benefits increased $34.0 million for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, as a larger increase in ceded reserves more than offset lower ceded death benefits. Universal life ceded benefits decreased $90.2 million for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008 due to lower ceded claims and a lower change in ceded reserves. Ceded universal life claims were $18.4 million lower for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008.

Ceded amortization of deferred policy acquisitions costs increased for the nine months ended September 30, 2009, compared to the same period in 2008, primarily due to the differences in unlocking between the two periods.

Total allowances received for the nine months ended September 30, 2009, increased from the nine months ended September 30, 2008 as decreases associated with lower sales in the universal life line and decreases associated with the change in our term life reinsurance strategy were more than offset by increases associated with older traditional plans with increasing reinsurance premiums and allowances in later years.

Table of Contents

Acquisitions

Segment results of operations

Segment results were as follows:

	For The Three Months Ended September 30, 2009	2008	Change	For The Nine Months Ended September 30, 2009	2008	Change
			(Dollars In Thousands)			
REVENUES						
Gross premiums and policy fees	$ 175,521	$ 188,377	(6.8)%	$ 538,681	$ 573,385	(6.1)%
Reinsurance ceded	(112,325)	(120,785)	(7.0)	(337,414)	(361,627)	(6.7)
Net premiums and policy fees	63,196	67,592	(6.5)	201,267	211,758	(5.0)
Net investment income	118,202	132,177	(10.6)	361,258	402,872	(10.3)
Other income	1,519	1,605	(5.4)	4,514	4,873	(7.4)
Total operating revenues	182,917	201,374	(9.2)	567,039	619,503	(8.5)
Realized gains (losses) - investments	163,529	(146,976)		268,937	(233,617)	
Realized gains (losses) - derivatives	(156,504)	106,974		(245,282)	182,063	
Total revenues	189,942	161,372		590,694	567,949	
BENEFITS AND EXPENSES						
Benefits and settlement expenses	131,786	145,153	(9.2)	406,290	442,374	(8.2)
Amortization of deferred policy acquisition costs and value of business acquired	15,547	17,181	(9.5)	47,942	56,195	(14.7)
Other operating expenses	2,523	6,019	(58.1)	11,084	19,823	(44.1)
Operating benefits and expenses	149,856	168,353	(11.0)	465,316	518,392	(10.2)
Amortization of DAC / VOBA related to realized gains (losses) - investments	(3,120)	(1,776)		(3,214)	(1,217)	
Total benefits and expenses	146,736	166,577	(11.9)	462,102	517,175	(10.6)
INCOME (LOSS) BEFORE INCOME TAX	43,206	(5,205)	n/m	128,592	50,774	n/m
Less: realized gains (losses)	7,025	(40,002)		23,655	(51,554)	
Less: related amortization of DAC	3,120	1,776		3,214	1,217	
OPERATING INCOME	$ 33,061	$ 33,021	0.1	$ 101,723	$ 101,111	0.6

Table of Contents

The following table summarizes key data for the Acquisitions segment:

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2009	2008	Change	2009	2008	Change
	(Dollars In Thousands)					
Average Life Insurance In-Force(1)						
Traditional						