PROTECTIVE LIFE CORP
Form 10-Q
May 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 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 (Do not check if a smaller reporting company)	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 May 5, 2009: 70,025,220

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PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED MARCH 31, 2009

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended March 31,	
	2009	2008
	(Dollars In Thousands, Except Per Share Amounts)	
Revenues		
Premiums and policy fees	$ 659,152	$ 662,404
Reinsurance ceded	(358,299)	(371,072)
Net of reinsurance ceded	300,853	291,332
Net investment income	421,685	408,465
Realized investment gains (losses):		
Derivative financial instruments	92,433	(1,657)
All other investments	(41,843)	(28,045)
Other-than-temporary impairment losses	(117,314)	
Portion of loss recognized in other comprehensive income (before taxes)	27,488	
Net impairment losses recognized in earnings	(89,826)	
Other income	38,663	45,509
Total revenues	721,965	715,604
Benefits and expenses		
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2009 - $334,694; 2008 - $371,733)	504,359	494,676
Amortization of deferred policy acquisition costs and value of business acquired	113,648	68,370
Other operating expenses, net of reinsurance ceded: (three months: 2009 - $55,065; 2008 - $52,378)	71,802	98,969
Total benefits and expenses	689,809	662,015
Income before income tax	32,156	53,589
Income tax expense	10,021	17,707
Net income	$ 22,135	$ 35,882
Net income per share - basic	$ 0.31	$ 0.50
Net income per share - diluted	$ 0.31	$ 0.50
Cash dividends paid per share	$ 0.12	$ 0.225
Average share outstanding - basic	70,850,571	71,080,703
Average share outstanding - diluted	71,392,134	71,453,824

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	March 31, 2009	December 31, 2008
	(Dollars In Thousands)	
Assets		
Investments:		
Fixed maturities, at fair market value (amortized cost: 2009 - $22,602,876; 2008 - $23,091,708)	$ 19,571,798	$ 20,098,980
Equity securities, at fair market value (cost: 2009 - $335,370; 2008 - $358,159)	268,211	302,132
Mortgage loans	3,858,573	3,848,288
Investment real estate, net of accumulated depreciation (2009 - $494; 2008 - $453)	14,769	14,810
Policy loans	800,617	810,933
Other long-term investments	451,847	432,137
Short-term investments	845,558	1,059,506
Total investments	25,811,373	26,566,786
Cash	180,648	149,358
Accrued investment income	286,363	287,543
Accounts and premiums receivable, net of allowance for uncollectible amounts (2009 - $5,399; 2008 - $5,177)	59,867	55,017
Reinsurance receivables	5,273,817	5,254,788
Deferred policy acquisition costs and value of business acquired	4,243,218	4,200,321
Goodwill	120,179	120,954
Property and equipment, net of accumulated depreciation (2009 - $119,899; 2008 - $117,948)	37,795	39,707
Other assets	174,777	174,035
Income tax receivable	81,012	73,457
Deferred income tax	359,098	380,069
Assets related to separate accounts		
Variable annuity	1,907,272	2,027,470
Variable universal life	224,824	242,944
Total Assets	$ 38,760,243	$ 39,572,449
Liabilities		
Policy liabilities and accruals	$ 18,348,202	$ 18,260,379
Stable value product account balances	4,360,658	4,960,405
Annuity account balances	9,316,791	9,357,427
Other policyholders funds	443,173	421,313
Other liabilities	719,550	926,821
Non-recourse funding obligations	1,375,000	1,375,000
Long-term debt	756,852	714,852
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	1,907,272	2,027,470
Variable universal life	224,824	242,944
Total liabilities	37,977,065	38,811,354
Commitments and contingencies - Note 4		
Shareowners equity		
Preferred Stock; $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2009 and 2008 - 160,000,000 shares issued: 2009 and 2008 - 73,251,960	36,626	36,626
Additional paid-in-capital	449,009	448,481
Treasury stock, at cost (2009 - 3,265,531 shares; 2008 - 3,346,153 shares)	(26,490)	(26,978)
Unallocated stock in Employee Stock Ownership Plan (2009 - 0 shares ; 2008 - 128,995 shares)		(474)
Retained earnings	1,984,237	1,970,496
Accumulated other comprehensive income (loss):		
Net unrealized (losses) on investments, net of income tax: (2009 - $(858,117); 2008 - $(863,520))	(1,564,310)	(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 - $(9,621); 2008	(17,867)	

- $0)				
Accumulated (loss) - hedging, net of income tax: (2009 - $(18,384); 2008 - $(25,980))		(33,090)		(46,762)
Postretirement benefits liability adjustment, net of income tax: (2009 - $(24,197); 2008 - $(24,374))		(44,937)		(45,266)
Total shareowners equity		783,178		761,095
Total liabilities and shareowners equity	$	38,760,243	$	39,572,449

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Three Months Ended March 31,	
	2009	2008
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 22,135	$ 35,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses	39,236	29,702
Amortization of deferred policy acquisition costs and value of business acquired	113,648	68,370
Capitalization of deferred policy acquisition costs	(119,554)	(85,095)
Depreciation expense	2,438	2,725
Deferred income tax	9,369	20,718
Accrued income tax	(7,799)	16,840
Interest credited to universal life and investment products	253,017	253,950
Policy fees assessed on universal life and investment products	(150,170)	(135,022)
Change in reinsurance receivables	(19,029)	(198,141)
Change in accrued investment income and other receivables	(3,670)	(20,312)
Change in policy liabilities and other policyholders funds of traditional life and health products	77,546	212,649
Trading securities:		
Maturities and principal reductions of investments	121,410	168,838
Sale of investments	282,938	441,775
Cost of investments acquired	(260,714)	(440,279)
Other net change in trading securities	(31,031)	(69,855)
Change in other liabilities	(110,248)	(13,271)
Other, net	(11,654)	(90,009)
Net cash provided by operating activities	207,868	199,465
Cash flows from investing activities		
Investments available-for-sale:		
Maturities and principal reductions of investments	705,861	558,165
Sale of investments	188,431	1,372,938
Cost of investments acquired	(634,967)	(2,578,904)
Mortgage loans:		
New borrowings	(106,445)	(178,922)
Repayments	94,507	85,723
Change in investment real estate, net	171	40
Change in policy loans, net	10,316	5,173
Change in other long-term investments, net	3,639	(7,324)
Change in short-term investments, net	227,288	140,151
Purchase of property and equipment	(240)	(2,403)
Sales of property and equipment		379
Net cash provided by (used in) investing activities	488,561	(604,984)
Cash flows from financing activities		
Borrowings under line of credit arrangements and long-term debt	42,000	20,000
Dividends to shareowners	(8,392)	(15,780)
Investments product deposits and change in universal life deposits	626,159	1,398,113
Investment product withdrawals	(1,337,254)	(1,011,830)
Other financing activities, net	12,348	(13,203)
Net cash (used in) provided by financing activities	(665,139)	377,300
Change in cash	31,290	(28,219)
Cash at beginning of period	149,358	146,152
Cash at end of period	$ 180,648	$ 117,933

See Notes to Consolidated Condensed Financial Statements

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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 month period ended March 31, 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

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combinations* (**SFAS No. 141(R)**). In December of 2007, the FASB issued SFAS No. 141(R). This Statement is a revision to the original Statement and continues the movement toward a greater use of fair values in financial reporting. It changes how business acquisitions are accounted for and will impact financial statements at the acquisition date and in subsequent periods. Further, certain of the changes will introduce more volatility into earnings and thus may impact a company s acquisition strategy. SFAS No. 141(R) will also impact the annual goodwill impairment test associated with acquisitions that close both before and after the effective date of this Statement. This Statement 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 Statement did not have an impact to the Company s consolidated results of operations or financial position. The Company will apply this Statement to all future business combinations.

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (**SFAS No. 160**). In December of 2007, the FASB issued SFAS No. 160. This Statement 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 Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). The adoption of this Statement did not have an impact on the Company s consolidated results of operations or financial position.

FASB Statement No. 161, ***Disclosures about Derivative Instruments and Hedging Activities*** **(SFAS No. 161).** In March of 2008, the FASB issued SFAS No. 161. This Statement requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging* Activities (SFAS No. 133). This Statement is effective for fiscal years and interim periods beginning after November 15, 2008. This Statement does not require any changes to current accounting. The Company adopted this Statement on January 1, 2009.

FASB Staff Position (FSP) FAS No. 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP FAS No. 140-3). In February of 2008, the FASB issued FSP FAS No. 140-3 to provide guidance on accounting for a transfer of a financial asset and a repurchase financing, which is not directly addressed by FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140). This FSP is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The FSP became effective for the Company on January 1, 2009. The Company will apply this FSP to all future transfers of financial assets and repurchase financing transactions.

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FSP FAS No. 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS No. 142-3) In April of 2008, the FASB issued FSP FAS No. 142-3 to improve consistency between the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142) and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other guidance under U.S. GAAP. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The FSP became effective for the Company on January 1, 2009. The adoption of this FSP did not have a significant impact on the Company s consolidated results of operations or financial position.

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). In May of 2008, the FASB issued SFAS No. 162. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement became effective on November 17, 2008. The adoption of this Statement did not have an impact on the Company s consolidated results of operations or financial position.

FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts* (SFAS No. 163). In May of 2008, the FASB issued SFAS No. 163. This Statement 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 Statement also clarifies how FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* (SFAS No. 60) applies 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 Statement does not apply to financial guarantee insurance contracts that would be within the scope of SFAS No. 133. This Statement is effective for fiscal years and interim periods beginning after December 15, 2008. The standard became effective for the Company on January 1, 2009. The adoption of this Statement did not have an impact on the Company s consolidated results of operations or financial position.

FSP Emerging Issues Task Force (EITF) Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF Issue No. 03-6-1). In June of 2008, the FASB issued FSP EITF Issue No. 03-6-1. This FSP 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 described in paragraphs 60 and 61 of FASB Statement No. 128, *Earnings per Share*. The FSP became effective for financial statements issued for fiscal years and interim periods beginning January 1, 2009. All prior period EPS data presented shall be adjusted retrospectively to conform to the provisions of this FSP. The adoption of this FSP did not have an impact on the Company s consolidated results of operations or financial position.

FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS No. 157-4) In April of 2009, the FASB issued FSP FAS

No. 157-4 to provide additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157), when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is 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 has elected to early adopt the FSP. Early adoption of the FSP did not have a significant impact on the Company s consolidated results of operations or financial position.

FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS No. 115-2 and FAS No. 124-2) In April of 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2 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 FSP addresses the timing of impairment recognition and provides greater clarity to investors about the credit and noncredit 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 FSP also requires increased and timelier disclosures regarding measurement techniques, credit losses, and an aging of securities with unrealized losses. This FSP 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 has elected to early adopt the FSP

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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 FSP 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.

Accounting Pronouncements Not Yet Adopted

FASB Statement No. 132(R)-1, ***Employers Disclosures about Postretirement Benefit Plan Assets*** **(SFAS No. 132(R)-1).** In December of 2008, the FASB issued SFAS No. 132(R)-1. This Statement does not require any changes to current accounting. It requires additional disclosures related to Postretirement Benefit Plan Assets. This Statement 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. The disclosure requirements will be effective for the Company for the period ending December 31, 2009. The Company does not expect this Statement to have an impact on its consolidated results of operations or financial position.

FSP FAS No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS No. 107-1 and APB 28-1)
In April of 2009, the FASB issued FSP FAS No. 107-1 and APB 28-1 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. The FSP requires qualitative and quantitative information about fair value estimates for all financial instruments not measured at fair value. This FSP is effective for interim and annual reporting reports periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company does not expect this FSP to have a significant impact on its consolidated results of operations or 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 three months ended March 31, 2009 other than those related to credit losses and the adoption of FSP FAS No. 115-2 and FAS No. 124-2 as discussed in Note 2, *Investment Operations*, and the following:

Guaranteed minimum withdrawal benefits - We establish liabilities for guaranteed minimum withdrawal benefits (GMWB) on our variable annuity products. The GMWB is valued in accordance with SFAS No. 133 which utilizes the valuation technique prescribed by SFAS No. 157, which requires the 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, and market volatility. We assume mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity 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.

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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 for the three months ended March 31, are summarized as follows:

		2009 (Dollars In Thousands)
Fixed maturities	$	5,553
Equity securities		
Impairments		(89,826)
Mark-to-market Modco trading portfolio		(45,878)
Mortgage loans and other investments		(1,518)
	$	(131,669)

For the three months ended March 31, 2009, gross gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $5.6 million.

The amortized cost and estimated market value of the Company s investments classified as available-for-sale as of March 31, 2009 are as follows:

		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Market Value
				(Dollars In Thousands)				
2009								
Fixed maturities:								
Bonds								
Residental mortgage-backed securities	$	4,643,180	$	34,057	$	(654,106)	$	4,023,131
Commercial mortgage-backed securities		1,088,367		25,381		(104,122)		1,009,626
Asset-backed securities		1,232,330		682		(116,437)		1,116,575
United States Government and authorities		71,197		2,122		(2,081)		71,238
States, municipalities, and political subdivisions		28,644		1,655		(141)		30,158
Convertibles and bonds with warrants		88				(66)		22
All other corporate bonds		12,481,810		51,147		(2,269,152)		10,263,805

Redeemable preferred stocks	36		(36)	
	19,545,652	115,044	(3,146,141)	16,514,555
Equity securities	333,495	3,124	(70,284)	266,335
Short-term investments	720,141			720,141
	$ 20,599,288	$ 118,168	$ (3,216,425)	$ 17,501,031

As of March 31, 2009, the Company had an additional $3.1 billion of fixed maturities, $1.9 million of equity securities, and $125.4 million of short-term investments classified as trading securities.

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The amortized cost and estimated market value of available-for-sale fixed maturities as of March 31, 2009, by expected maturity, are shown as follows. Expected maturities are derived from 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	$ 1,201,430	$ 1,164,451
Due after one year through five years	5,616,487	4,874,749
Due after five years through ten years	3,750,102	3,344,378
Due after ten years	8,977,633	7,130,977
	$ 19,545,652	$ 16,514,555

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 estimated future cash flows and the fair value of the securities is recognized in other comprehensive income as a non-credit loss. 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 future cash flows. To calculate the post impairment cost, the estimated 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 months ended March 31, 2009, the Company recorded other-than-temporary impairments of investments of $117.3 million, of which $89.8 million was recorded in earnings and $27.5 million was recorded in other comprehensive income (loss). Other-than-temporary impairments were $19.4 million and $97.9 million for securities related to equity securities and debt securities. 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 $67.5 million, with $40.0 million of credit losses recorded on debt securities in earnings, and $27.5 million of non-credit losses recorded in other comprehensive income (loss). 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 months ended March 31, 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):

	Credit Losses
	(Dollars In Thousands)

Beginning balance	$	
Additions for newly impaired securities		40,014
Ending balance	$	40,014

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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 March 31, 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	$ 610,870	$ (153,913)	$ 2,592,909	$ (500,193)	$ 3,203,779	$ (654,106)
Commercial mortgage-backed securities	200,706	(36,092)	659,533	(68,030)	860,239	(104,122)
Asset-backed securities	456,163	(32,478)	635,564	(83,959)	1,091,727	(116,437)
US government	16,638	(2,081)			16,638	(2,081)
States, municipalities, etc.	57	(1)	872	(140)	929	(141)
Convertibles bonds			22	(66)	22	(66)
Other corporate bonds	4,815,656	(895,419)	3,477,634	(1,373,769)	8,293,290	(2,269,188)
Equities	80,353	(41,254)	50,381	(29,030)	130,734	(70,284)
	$ 6,180,443	$ (1,161,238)	$ 7,416,915	$ (2,055,187)	$ 13,597,358	$ (3,216,425)

For commercial mortgage-backed securities in an unrealized loss position for greater than 12 months, $66.7 million of the total $2.1 billion 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 $1.4 billion as of March 31, 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 March 31, 2009, the Company had bonds which were rated below investment grade of $1.4 billion, and had an amortized cost of $2.2 billion. Not included in these below investment grade bonds as of March 31, 2009, are $117.9 million of securities in the Company s trading securities portfolio. As of March 31, 2009, approximately $30.7 million of the bonds rated below investment grade were securities issued in Company-sponsored commercial mortgage loan securitizations. Approximately $478.9 million of the below investment grade bonds are not publicly traded.

The change in unrealized gains (losses), net of income tax, on fixed maturity and equity securities, classified as available-for-sale, for the three months ended March 31, is summarized as follows:

	2009
	(Dollars In Thousands)
Fixed maturities	$ (24,266)
Equity securities	(7,260)

3. NON-RECOURSE FUNDING OBLIGATIONS

Non-recourse funding obligations outstanding as of March 31, 2009, on a consolidated basis, listed by issuer, are reflected in the following table:

Issuer		Balance (Dollars In Thousands)	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
Golden Gate Captive Insurance Company	$	800,000	2037	3.28%
Golden Gate II Captive Insurance Company		575,000	2052	1.68%
Total	$	1,375,000		

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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, like other financial service companies, in the ordinary course of business, is involved in such litigation and arbitration. 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.

5. STOCK-BASED COMPENSATION

Performance shares awarded during the three months ended March 31, 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, Except Share Amounts)		
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 (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 quarter of 2009.

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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 in three, four, or five 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 three months ended March 31, 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		3.50	910,829
SARs exercised / forfeited		39.53	(5,200)
Balance as of March 31, 2009	$	22.30	2,465,202

The SARs issued during the three months ended March 31, 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 SAB 107 was used for these awards) were as follows: expected volatility of 68.5%, risk-free interest rate of 2.7%, a dividend rate of 10.3%, a 0% forfeiture rate, and the expected exercise date was 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 572,200 restricted stock units at a fair value of $3.50 per unit during the three months ended March 31, 2009. These awards have a total fair value of $2.0 million. Approximately half of these restricted stock units vest in 2012 and the remainder vest in 2013.

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 March 31,			
		2009		2008
	(Dollars In Thousands)			
Service cost Benefits earned during the period	$	1,889	$	2,907
Interest cost on projected benefit obligation		2,395		3,125
Expected return on plan assets		(2,531)		(3,469)
Amortization of prior service cost		(98)		66
Amortization of actuarial losses		568		1,009
Net periodic benefit cost	$	2,223	$	3,638

The Company has not yet determined the aggregate amount, if any, that it will contribute to its defined benefit pension plan during 2009. As of March 31, 2009, no contributions had been made to the defined benefit pension plan. However, during April of 2009, the Company contributed $2.0 million to the defined benefit pension plan.

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 months ended March 31, 2009 and 2008 was immaterial to the Company s financial statements.

7. EARNINGS PER SHARE

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

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

	For The Three Months Ended March 31,	
	2009	2008
	(Dollars In Thousands, Except Per Share Amounts)	
Calculation of basic earnings per share:		
Net income	$ 22,135	$ 35,882
Average shares issued and outstanding	69,941,246	70,100,334
Issuable under various deferred compensation plans	909,325	980,369
Weighted shares outstanding - Basic	70,850,571	71,080,703
Per share:		
Basic earnings per share	$ 0.31	$ 0.50
Calculation of diluted earnings per share:		
Net income	$ 22,135	$ 35,882
Weighted shares outstanding - Basic	70,850,571	71,080,703
Stock appreciation rights (SARs)(a)	218,685	178,618
Issuable under various other stock-based compensation plans	322,878	194,503
Weighted shares outstanding - Diluted	71,392,134	71,453,824
Per share:		
Diluted earnings per share	$ 0.31	$ 0.50

(a) Excludes 1,554,373 and 717,845 SARs as of March 31, 2009 and 2008, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company s earnings per share and will be included in the Company s calculation of the diluted average shares oustanding for applicable periods.

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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 March 31,			
	2009		2008	
	(Dollars In Thousands)			
Net income	$	22,135	$	35,882
Change in net unrealized (losses) gains on investments, net of income tax: (three months: 2009 - $(24,446); 2008 - $(155,582))		(43,705)		(282,781)
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 - $(9,621); 2008 - $0)		(17,867)		
Change in accumulated gain (loss)-hedging, net of income tax: (three months: 2009 - $7,859; 2008 - $(5,945))		14,392		(10,708)
Minimum pension liability adjustment, net of income tax: (three months: 2009 - $177; 2008 - $156)		329		316
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2009 - $29,849; 2008 - $(3,031))		54,423		(5,510)
Reclassification adjustment for hedging amounts included in net income, net of income tax: (three months: 2009 - $(263); 2008 - $(263)		(720)		(736)
Comprehensive income (loss)	$	28,987	$	(263,537)

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 in light of the segment reporting requirements prescribed by FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, 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 manufactures, sells, 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

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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 and expenses not attributable to the segments above (including net investment income on capital and interest on debt). 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 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.

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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 March 31, 2009	For The Three Months Ended March 31, 2008
	(Dollars In Thousands)	
Revenues		
Life Marketing	$ 281,851	$ 260,919
Acquisitions	199,234	205,635
Annuities	129,945	82,260
Stable Value Products	66,564	83,794
Asset Protection	66,855	72,933
Corporate and Other	(22,484)	10,063
Total revenues	$ 721,965	$ 715,604
Segment Operating Income (Loss)		
Life Marketing	$ 42,510	$ 46,449
Acquisitions	33,621	33,576
Annuities	(575)	2,489
Stable Value Products	20,207	16,216
Asset Protection	6,280	9,852
Corporate and Other	(9,247)	(29,973)
Total segment operating income	92,796	78,609
Realized investment (losses) gains - investments(1)	(131,747)	(29,119)
Realized investment (losses) gains - derivatives(2)	71,107	4,099
Income tax expense	(10,021)	(17,707)
Net income	$ 22,135	$ 35,882
(1) Realized investment losses - investments	$ (131,669)	$ (28,045)
Less: related amortization of DAC	78	1,074
	$ (131,747)	$ (29,119)
(2) Realized investment gains (losses) - derivatives	$ 92,433	$ (1,657)
Less: settlements on certain interest rate swaps	2,238	484
Less: derivative activity related to certain annuities	19,088	(6,240)
	$ 71,107	$ 4,099

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Operating Segment Assets
As of March 31, 2009
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 7,986,042	$ 9,286,615	$ 7,592,521	$ 4,346,002
Deferred policy acquisition costs and value of business acquired	2,626,365	965,928	515,942	14,656
Goodwill	10,192	47,234		
Total assets	$ 10,622,599	$ 10,299,777	$ 8,108,463	$ 4,360,658

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 794,546	$ 4,364,152	$ 26,968	$ 34,396,846
Deferred policy acquisition costs and value of business acquired	108,692	11,635		4,243,218
Goodwill	62,670	83		120,179
Total assets	$ 965,908	$ 4,375,870	$ 26,968	$ 38,760,243

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 three months ended March 31, 2009, the Company decreased its goodwill balance by approximately $0.8 million. The decrease was due to an adjustment in the Acquisitions segment related to tax benefits realized during the first quarter of 2009 on the portion of tax goodwill in excess of GAAP basis goodwill. As of March 31, 2009, the Company had an aggregate goodwill balance of $120.2 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) based on the applied guidance from SFAS No. 157 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 in accordance with SFAS No. 142.

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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 an overall fear of the capital levels and potential economic impacts to financial services companies. These factors primarily impact the Company at a corporate level, and largely within the Corporate and Other segment. 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.

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 SFAS No. 157 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 of SFAS No. 157 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.

In compliance with SFAS No. 157, 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.

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As a result of the adoption of SFAS No. 157, the Company recognized the following adjustment to opening retained earnings for its Equity Indexed Annuities that were previously accounted for under FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140* (SFAS No. 155):

	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 of SFAS No. 157			2,278
Change in deferred income taxes			(808)
Cumulative effect of adoption of SFAS No. 157			$ 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.

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The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of March 31, 2009:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Asset-backed securities	$	$ 411,178	$ 705,397	$ 1,116,575
Commerical mortgage-backed securities		157,906	851,721	1,009,627
Residental mortgage-backed securities		4,023,098	32	4,023,130
US government and authorities	54,652	16,586		71,238
State, municipalities and political subdivisions		30,066	93	30,159
Public utilities				
All other corporate bonds		10,169,624	94,180	10,263,804
Redeemable preferred stocks				
Convertible bonds with warrants		22		22
Total fixed maturity securities - available-for-sale	54,652	14,808,480	1,651,423	16,514,555
Fixed maturity securities - trading	291,168	2,727,067	39,008	3,057,243
Total fixed maturity securities	345,820	17,535,547	1,690,431	19,571,798
Equity securities	186,124	13,004	69,083	268,211
Other long-term investments (1)	16	5,151	278,916	284,083
Short-term investments	775,171	69,550	837	845,558
Total investments	1,307,131	17,623,252	2,039,267	20,969,650
Cash	180,648			180,648
Other assets	3,357			3,357
Assets related to separate acccounts				
Variable annuity	1,907,272			1,907,272
Variable universal life	224,824			224,824
Total assets measured at fair value on a recurring basis	$ 3,623,232	$ 17,623,252	$ 2,039,267	$ 23,285,751
Liabilities:				
Annuity account balances (2)	$	$	$ 152,826	$ 152,826
Other liabilities (1)	3,306	88,484	54,877	146,667
Total liabilities measured at fair value on a recurring basis	$ 3,306	$ 88,484	$ 207,703	$ 299,493

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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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 accounts				
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 residental mortgage-backed securities.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended March 31, 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)	$ 22,961	$ (243)	$	$ 705,397	$
Commercial mortgage-backed securities	855,817		2,079	(6,175)		851,721	
Residential mortgage-backed securities	34			(2)		32	
State, municipalities and political subdivisions	93					93	
All other corporate bonds	88,842	104	937	(17,148)	21,445	94,180	
Total fixed maturity securities - available-for-sale	1,627,496	73	25,977	(23,568)	21,445	1,651,423	
Fixed maturity securities - trading	32,645	493		31,212	(25,342)	39,008	
Total fixed maturity securities	1,660,141	566	25,977	7,644	(3,897)	1,690,431	
Equity securities	76,411		231	(7,559)		69,083	
Other long-term investments (1)	256,973	21,943				278,916	21,943
Short-term investments	1,161		(216)		(108)	837	
Total investments	1,994,686	22,509	25,992	85	(4,005)	2,039,267	21,943
Total assets measured at fair value on a recurring basis	$ 1,994,686	$ 22,509	$ 25,992	$ 85	$ (4,005)	$ 2,039,267	$ 21,943
Liabilities:							
Annuity account balances (2)	$ 152,762	$ 946	$	$ (1,010)	$	$ 152,826	$
Other liabilities (1)	113,311	58,434				54,877	58,434
Total liabilities measured at fair value on a recurring basis	$ 266,073	$ 59,380	$	$ (1,010)	$		