PROTECTIVE LIFE CORP
Form 10-Q
May 07, 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 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

Table of Contents

PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED MARCH 31, 2009

TABLE OF CONTENTS

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended March 31, 2009	For The Three Months Ended March 31, 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

Table of Contents

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

4

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Three Months Ended March 31, 2009	For The Three Months Ended March 31, 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

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 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.

Table of Contents

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

Table of Contents

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.

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 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.

Table of Contents

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

Table of Contents

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						