PROTECTIVE LIFE CORP
Form 10-Q
November 07, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

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 No.)

2801 Highway 280 South

Birmingham, Alabama 35223

(Address of principal executive offices and zip code)

(205) 268-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

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

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

Number of shares of Common Stock, $0.50 par value, outstanding as of November 5, 2008: 69,905,807

Table of Contents

PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTER ENDED SEPTEMBER 30, 2008

TABLE OF CONTENTS

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	$ 664,464	$ 676,500	$ 2,005,741	$ 2,024,682
Reinsurance ceded	(366,734)	(368,878)	(1,161,580)	(1,162,641)
Net of reinsurance ceded	297,730	307,622	844,161	862,041
Net investment income	423,522	428,792	1,270,928	1,254,910
Realized investment (losses) gains:				
Derivative financial instruments	91,991	(37,467)	155,421	36,523
All other investments	(351,102)	43,114	(491,558)	(10,201)
Other income	47,943	51,874	141,435	183,118
Total revenues	510,084	793,935	1,920,387	2,326,391
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2008 - $309,675; 2007 - $360,749 nine months: 2008 - $1,084,504; 2007 - $1,112,579)	535,839	504,905	1,500,859	1,431,639
Amortization of deferred policy acquisition costs and value of business acquired	39,331	73,863	179,151	228,279
Other operating expenses, net of reinsurance ceded: (three months: 2008 - $51,584; 2007 - $62,470 nine months: 2008 - $160,252; 2007 - $209,762)	94,856	107,750	289,251	324,287
Total benefits and expenses	670,026	686,518	1,969,261	1,984,205
Income (loss) before income tax	(159,942)	107,417	(48,874)	342,186
Income tax (benefit) expense	(59,934)	34,425	(22,932)	113,506
Net income (loss)	$ (100,008)	$ 72,992	$ (25,942)	$ 228,680
Net income (loss) per share - basic	$ (1.41)	$ 1.03	$ (0.36)	$ 3.22
Net income (loss) per share - diluted	$ (1.40)	$ 1.02	$ (0.36)	$ 3.20
Cash dividends paid per share	$ 0.235	$ 0.225	$ 0.695	$ 0.665
Average share outstanding - basic	71,115,365	71,074,619	71,104,383	71,055,969
Average share outstanding - diluted	71,380,898	71,467,009	71,425,610	71,481,471

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	September 30, 2008	December 31, 2007
	(Dollars In Thousands)	
Assets		
Investments:		
Fixed maturities, at fair market value (amortized cost: 2008 - $23,815,283; 2007 - $23,448,784)	$ 22,084,909	$ 23,389,069
Equity securities, at fair market value (cost: 2008 - $378,407; 2007 - $112,406)	312,389	117,037
Mortgage loans	3,653,919	3,284,326
Investment real estate, net of accumulated depreciation (2008 - $411; 2007 - $283)	7,793	8,026
Policy loans	811,846	818,280
Other long-term investments	329,259	185,892
Short-term investments	987,604	1,236,443
Total investments	28,187,719	29,039,073
Cash	86,587	146,152
Accrued investment income	308,144	291,734
Accounts and premiums receivable, net of allowance for uncollectible amounts (2008 - $2,950; 2007 - $3,587)	163,258	87,883
Reinsurance receivables	5,227,020	5,089,100
Deferred policy acquisition costs and value of business acquired	3,965,955	3,400,493
Goodwill	122,128	117,366
Property and equipment, net of accumulated depreciation (2008 - $116,022; 2007 - $111,213)	40,274	42,795
Other assets	172,759	144,296
Income tax receivable	154,454	165,741
Assets related to separate accounts		
Variable annuity	2,426,806	2,910,606
Variable universal life	297,687	350,802
Total Assets	$ 41,152,791	$ 41,786,041
Liabilities		
Policy liabilities and accruals	$ 18,131,666	$ 17,429,307
Stable value product account balances	6,021,834	5,046,463
Annuity account balances	8,976,496	8,708,383
Other policyholders funds	424,185	307,950
Other liabilities	741,120	1,204,018
Deferred income taxes	58,747	512,156
Non-recourse funding obligations	1,375,000	1,375,000
Liabilities related to variable interest entities		400,000
Long-term debt	649,852	559,852
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	2,426,806	2,910,606
Variable universal life	297,687	350,802
Total liabilities	39,628,136	39,329,280
Commitments and contingent liabilities - Note 3		
Shareowners equity		
Preferred Stock; $1 par value, shares authorized: 4,000,000; Issued: None		
	36,626	36,626

Common Stock, $.50 par value, shares authorized: 2008 and 2007 - 160,000,000 shares issued: 2008 and 2007 - 73,251,960				
Additional paid-in-capital		448,887		444,765
Treasury stock, at cost (2008 - 3,348,529 shares; 2007 - 3,102,898 shares)		(26,978)		(11,140)
Unallocated stock in Employee Stock Ownership Plan (2008 - 138,857 shares ; 2007 - 251,231 shares)		(474)		(852)
Retained earnings (includes FAS157 cumulative effect adjustment - $1,470)		1,994,799		2,067,891
Accumulated other comprehensive income (loss):				
Net unrealized (losses) on investments, net of income tax: (2008 - $(486,000); 2007 - $(26,675))		(885,588)		(45,339)
Accumulated (loss) - hedging, net of income tax: (2008 - $(11,434); 2007 - $(6,185))		(20,598)		(12,222)
Postretirement benefits liability adjustment, net of income tax: (2008 - $(11,856); 2007 - $(11,622))		(22,019)		(22,968)
Total shareowners equity		1,524,655		2,456,761
Total liabilities and shareowners equity	$	41,152,791	$	41,786,041

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2008	2007
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income (loss)	$ (25,942)	$ 228,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	336,137	(26,322)
Amortization of deferred policy acquisition costs and value of business acquired	179,151	228,279
Capitalization of deferred policy acquisition costs	(294,154)	(348,730)
Depreciation expense	7,667	5,832
Deferred income tax	69,252	130,010
Accrued income tax	10,775	(11,638)
Interest credited to universal life and investment products	773,877	753,170
Policy fees assessed on universal life and investment products	(419,384)	(423,823)
Change in reinsurance receivables	(137,920)	(338,857)
Change in accrued investment income and other receivables	(91,785)	(33,071)
Change in policy liabilities and other policyholders funds of traditional life and health products	300,800	200,778
Trading securities:		
Maturities and principal reductions of investments	358,437	316,189
Sale of investments	956,257	1,605,326
Cost of investments acquired	(995,657)	(2,019,909)
Other net change in trading securities	(83,440)	212,076
Change in other liabilities	(107,668)	173,298
Other, net	(176,217)	(60,041)
Net cash provided by operating activities	660,186	591,247
Cash flows from investing activities		
Investments available-for-sale:		
Maturities and principal reductions of investments	1,588,245	1,007,775
Sale of investments	2,520,126	1,743,960
Cost of investments acquired	(5,573,114)	(3,692,079)
Mortgage loans:		
New borrowings	(640,186)	(684,495)
Repayments	269,864	367,475
Change in investment real estate, net	456	36,041
Change in policy loans, net	6,434	22,544
Change in other long-term investments, net	17,278	(1,537)
Change in short-term investments, net	63,391	38,933
Purchase of property and equipment	(4,192)	(12,555)
Sales of property and equipment	787	4,094
Net cash used in investing activities	(1,750,911)	(1,169,844)
Cash flows from financing activities		
Borrowings under line of credit arrangements and long-term debt	90,000	142,000
Principal payments on line of credit arrangement and long-term debt		(138,280)
Net proceeds from securities sold under repurchase agreements		127,251
Payments on liabilities related to variable interest entities	(400,000)	(20,395)
Issuance of non-recourse funding obligations		750,000

Dividends to share owners		(48,620)		(46,598)
Investments product deposits and change in universal life deposits		4,066,785		2,739,113
Investment product withdrawals		(2,647,740)		(2,773,473)
Excess tax benefits on stock based compensation				1,653
Other financing activities, net		(29,265)		(96,770)
Net cash provided by financing activities		1,031,160		684,501
Change in cash		(59,565)		105,904
Cash at beginning of period		146,152		69,516
Cash at end of period	$	86,587	$	175,420

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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, 2007.

Accounting Pronouncements Recently Adopted

Financial Accounting Standards Board (FASB) Statement No. 157, ***Fair Value Measurement (SFAS No. 157)*** In September 2006, the FASB issued SFAS No. 157. On January 1, 2008, the Company adopted this Statement, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The adoption of SFAS No. 157 did not have a material impact on the Company s consolidated financial statements. Additionally, on January 1, 2008, the Company elected the partial adoption of SFAS No. 157 under the provisions of FASB Staff Position (FSP) FAS 157-2, which amends SFAS No. 157 to allow an entity to delay the application of this Statement until periods beginning January 1, 2009 for certain non-financial assets and liabilities. Under the provisions of this FSP, the Company will delay the application of SFAS No. 157 for fair value measurements used in the impairment testing of goodwill and indefinite-lived intangible assets and eligible non-financial assets and liabilities included within a business combination. In January 2008, FASB also issued proposed FSP FAS 157-c that would amend SFAS No. 157 to clarify the principles on fair value measurement of liabilities. Management is monitoring the status of this proposed FSP for any impact on the Company s consolidated financial statements. On October 10, 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP FAS 157-3), to clarify the application of SFAS No. 157 in a market that is not active and provides examples to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. It also reaffirms the notion of fair value as an exit price as of the measurement date. This statement was effective upon issuance, including prior periods for which the financial statements have not been issued. For more information, see Note 10, *Fair Value of Financial Instruments*.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The Company utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs. For more information, see Note 10, *Fair Value of Financial Instruments*.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159)*. In February 2007, the FASB issued SFAS No. 159. This Statement provides entities the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company adopted SFAS No. 159 as of January 1, 2008. The Company has elected not to apply the provisions of SFAS No. 159 to its eligible financial assets and financial liabilities on the date of adoption.

Table of Contents

Accordingly, the initial application of SFAS No. 159 had no effect on the Company s consolidated results of operations or financial position.

FASB Staff Position (FSP) FIN 39-1, ***Amendment of FASB Interpretation No. 39 (FSP FIN39-1).*** As of January 1, 2008, the Company adopted FSP FIN39-1. This FSP amends FIN 39, *Offsetting of Amounts Related to Certain Contracts*, to allow fair value amounts recognized for collateral to be offset against fair value amounts recognized for derivative instruments that are executed with the same counterparty under certain circumstances. The FSP also requires an entity to disclose the accounting policy decision to offset, or not to offset, fair value amounts in accordance with FIN 39, as amended. The Company does not, and has not previously, offset the fair value amounts recognized for derivatives with the amounts recognized as collateral.

Accounting Pronouncements Not Yet Adopted

FASB Statement 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. Thus, any potential goodwill impact from an acquisition that closed prior to the effective date of the Statement will need to be assessed under the provisions of SFAS No. 141(R). 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.

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 Company does not expect this Statement to have a significant impact on its 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 Derivative Instruments and Hedging Activities* (SFAS No. 133). This statement is effective for fiscal years and interim periods beginning after November 15, 2008. The Statement will be effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact, if any, that SFAS No. 161 will have on its consolidated results of operations or financial position.

FSP No. 140-3, ***Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FAS No. 140-3).*** In February of 2008, the FASB issued FSP 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 will be effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact, if any, that this FSP will have on its consolidated results of operations or financial position.

FSP No. 142-3, ***Determination of the Useful Life of Intangible Assets (FAS No. 142-3).*** In April of 2008, the FASB issued FSP No. 142-3 to improve consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*, and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007), Business Combinations, 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 will be effective for the Company beginning January 1, 2009. The Company does not expect this FSP to have a significant impact on its consolidated results of operations or financial position.

Table of Contents

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 is effective sixty days following the United States Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect this Statement to have a significant impact on its 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 will be effective for the Company beginning January 1, 2009. The Company does not expect this Statement to have a significant impact on its consolidated results of operations or financial position.

FSP 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 will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. All prior period EPS data presented shall be adjusted retrospectively to conform to the provisions of this FSP. The Company is currently evaluating the impact of this FSP, but does not expect it to have a significant impact on its consolidated results of operations or financial position.

FSP FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4). In September of 2008, the FASB issued FSP FAS 133-1 and FIN 45-4. This FSP amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument, and also amends FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. In addition, this FSP clarifies the FASB s intent about the effective date of SFAS No. 161. The FSP will be effective for financial statements issued for fiscal years and interim periods ending after November 15, 2008. In periods after adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption. The Company is currently evaluating the impact of this FSP, but does not expect it to have a significant impact on its consolidated results of operations or financial position.

Reclassifications

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

Significant Accounting Policies

Valuation of investment securities

The fair value for fixed maturity, short term, and equity securities, is determined by management after considering and evaluating one of three primary sources of information: third party pricing services, independent broker quotations, or pricing matrices. Security pricing is applied using a   waterfall   approach whereby publicly

Table of Contents

available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to: reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows and rates of prepayments. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third party pricing services will normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of asset-backed securities (ABS), collateralized mortgage obligations (CMOs), and mortgage-backed securities (MBS) are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and rates of prepayments previously experienced at the interest rate levels projected for the underlying collateral.

Determining whether a decline in the current fair value of invested assets is an other-than-temporary decline in value can involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. For example, assessing the value of certain investments requires that we perform an analysis of expected future cash flows or rates of prepayments. Other investments, such as collateralized mortgage or bond obligations, represent selected tranches of a structured transaction, supported in the aggregate by underlying investments in a wide variety of issuers. Management considers a number of factors when determining the impairment status of individual securities. These include the economic condition of various industry segments and geographic locations and other areas of identified risks. Although it is possible for the impairment of one investment to affect other investments, we engage in ongoing risk management to safeguard against and limit any further risk to our investment portfolio. Special attention is given to correlative risks within specific industries, related parties, and business markets. We consider a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline in fair value, 4) the 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.

For the three and nine months ended September 30, 2008, the Company recorded pre-tax other-than-temporary impairments, excluding $20.0 million of modified coinsurance (Modco) related impairments, of $202.6 million and $282.6 million, respectively, in our investments compared to no impairments and $0.1 million for the same periods in 2007. The impairments related to debt obligations and preferred stock holdings in Lehman Brothers and Washington Mutual, residential mortgage-backed securities collateralized by Alt-A mortgages, and preferred stock holdings in Fannie Mae and Freddie Mac. The decline in the estimated fair value of these securities resulted from factors including distressed credit markets, the failure or near failure of a number of large financial service companies resulting in intervention by the United States Federal Government, downgrades in rating, and interest rate changes. These other-than-temporary impairments resulted from our analysis of circumstances and our belief that credit events, loss severity, changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to these investments. For more information on impairments, refer to Item 2, *Management s Discussion and Analysis of Financial Condition and Results of Operations*.

Reinsurance

The Company uses reinsurance extensively in certain of its segments. The following summarizes some of the key aspects of the Company s accounting policies for reinsurance:

Reinsurance Accounting Methodology The Company accounts for reinsurance under the provisions of FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (SFAS No. 113). The methodology for accounting for the impact of reinsurance on the Company s life insurance and annuity products is determined by whether the specific products are subject to SFAS No. 60 or FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* (SFAS No. 97).

Table of Contents

The Company s traditional life insurance products are subject to SFAS No. 60 and the recognition of the impact of reinsurance costs on the Company s financial statements reflect the requirements of that pronouncement. Ceded premiums are treated as an offset to direct premium and policy fee revenue and are recognized when due to the assuming company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the applicable financial reporting period. Expense allowances paid by the assuming companies are treated as an offset to other operating expenses. Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the ultimate or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances is treated as an offset to direct amortization of deferred policy acquisition costs or value of business acquired (VOBA). Amortization of deferred expense allowances is calculated as a level percentage of expected premiums in all durations given expected future lapses and mortality and accretion due to interest.

The Company s short duration insurance contracts (primarily issued through the Asset Protection segment) are also subject to SFAS No. 60 and the recognition of the impact of reinsurance costs on the Company s financial statements also reflect the requirements of that pronouncement. Reinsurance allowances include such acquisition costs as commissions and premium taxes. A ceding fee is also collected to cover other administrative costs and profits for the Company. Reinsurance allowances received are capitalized and charged to expense in proportion to premiums earned. Ceded unamortized acquisition costs are netted with direct unamortized acquisition costs in the balance sheet.

The Company s universal life (UL), variable universal life, bank-owned life insurance (BOLI), and annuity products are subject to SFAS No. 97 and the recognition of the impact of reinsurance costs on the Company s financial statements reflect the requirements of that pronouncement. Ceded premiums and policy fees on SFAS No. 97 products reduce premiums and policy fees recognized by the Company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the applicable valuation period. Commission and expense allowances paid by the assuming companies are treated as an offset to other operating expenses. Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the ultimate or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances are amortized based on future expected gross profits according to SFAS No. 97. Unlike with SFAS No. 60 products, assumptions for SFAS No. 97 regarding mortality, lapses and interest are continuously reviewed and may be periodically changed. These changes will result in unlocking that changes the balance in the ceded deferred amortization cost and can affect the amortization of deferred acquisition cost and VOBA. Ceded unearned revenue liabilities are also amortized based on expected gross profits. Assumptions for SFAS No. 97 products are based on the best current estimate of expected mortality, lapses and interest spread. The Company complies with AICPA Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*, which impacts the timing of direct and ceded earnings on certain blocks of the Company s SFAS No. 97 business.

Reinsurance Allowances - The amount and timing of reinsurance allowances (both first year and renewal allowances) are contractually determined by the applicable reinsurance contract and may or may not bear a relationship to the amount and incidence of expenses actually paid by the ceding company. Many of the Company s reinsurance treaties do, in fact, have ultimate renewal allowances that exceed the direct ultimate expenses. Additionally, allowances are intended to reimburse the ceding company for some portion of the ceding company s commissions, expenses, and taxes. As a result, first year expenses paid by the Company may be higher than first year allowances paid by the reinsurer, and reinsurance allowances may be higher in later years than renewal expenses paid by the Company.

The Company recognizes allowances according to the prescribed schedules in the reinsurance contracts, which may or may not bear a relationship to actual expenses incurred by the Company. A portion of these allowances is deferred while the non-deferrable allowances are recognized immediately as a reduction of other operating expenses. The Company s practice is to defer reinsurance allowances in excess of the ultimate allowance. This practice is consistent with the Company s practice of capitalizing direct expenses. While the recognition of reinsurance allowances is consistent with U.S. GAAP, in some cases non-deferred reinsurance allowances may exceed non-deferred direct costs, causing net other operating expenses to be negative.

Table of Contents

Ultimate reinsurance allowances are defined as the lowest allowance percentage paid by the reinsurer in any policy duration over the lifetime of a universal life policy (or through the end of the level term period for a traditional life policy). The Company determines ultimate allowances as the final amount to be paid over the life of a contract after higher acquisition related expenses (whether first year or renewal) are completed. Ultimate reinsurance allowances are determined by the reinsurer and set by the individual contract of each treaty during the initial negotiation of each such contract. Ultimate reinsurance allowances and other treaty provisions are listed within each treaty and will differ between agreements since each reinsurance contract is a separately negotiated agreement. The Company uses the ultimate reinsurance allowances set by the reinsurers and contained within each treaty agreement to complete its accounting responsibilities.

Amortization of Reinsurance Allowances - Reinsurance allowances do not affect the methodology used to amortize DAC and VOBA, or the period over which such DAC and VOBA are amortized. Reinsurance allowances offset the direct expenses capitalized, reducing the net amount that is capitalized. The amortization pattern varies with changes in estimated gross profits arising from the allowances. DAC and VOBA on SFAS No. 60 policies are amortized based on the pattern of estimated gross premiums of the policies in force. Reinsurance allowances do not affect the gross premiums, so therefore they do not impact SFAS No. 60 amortization patterns. DAC and VOBA on SFAS No. 97 products are amortized based on the pattern of estimated gross profits of the policies in force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore do impact SFAS No. 97 amortization patterns.

Reinsurance Liabilities - Claim liabilities and policy benefits are calculated consistently for all policies in accordance with U.S. GAAP, regardless of whether or not the policy is reinsured. Once the claim liabilities and policy benefits for the underlying policies are estimated, the amounts recoverable from the reinsurers are estimated based on a number of factors including the terms of the reinsurance contracts, historical payment patterns of reinsurance partners, and the financial strength and credit worthiness of reinsurance partners. Liabilities for unpaid reinsurance claims are produced from claims and reinsurance system records, which contain the relevant terms of the individual reinsurance contracts. The Company monitors claims due from reinsurers to ensure that balances are settled on a timely basis. Incurred but not reported claims are reviewed by the Company s actuarial staff to ensure that appropriate amounts are ceded.

The Company analyzes and monitors the credit worthiness of each of its reinsurance partners to minimize collection issues. For newly executed reinsurance contracts with reinsurance companies that do not meet predetermined standards, the Company requires collateral such as assets held in trusts or letters of credit.

Components of Reinsurance Cost - The following income statement lines are affected by reinsurance cost:

Premiums and policy fees (reinsurance ceded on the Company s financial statements) represent consideration paid to the assuming company for accepting the ceding company s risks. Ceded premiums and policy fees increase reinsurance cost.

Benefits and settlement expenses include incurred claim amounts ceded and changes in policy reserves. Ceded benefits and settlement expenses decrease reinsurance cost.

Amortization of deferred policy acquisition cost and VOBA reflects the amortization of capitalized reinsurance allowances. Ceded amortization decreases reinsurance cost.

Other expenses include reinsurance allowances paid by assuming companies to the Company less amounts capitalized. Non-deferred reinsurance allowances decrease reinsurance cost.

The Company s reinsurance programs do not materially impact the other income line of the Company s income statement. In addition, net investment income generally has no direct impact on the Company s reinsurance cost. However, it should be noted that by ceding business to the assuming companies, the Company forgoes investment income on the reserves ceded to the assuming companies. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming companies profitability on business assumed from the Company.

Table of Contents

Insurance liabilities and reserves

Establishing an adequate liability for the Company s obligations to policyholders requires the use of assumptions. Estimating liabilities for future policy benefits on life and health insurance products requires the use of assumptions relative to future investment yields, mortality, morbidity, persistency and other assumptions based on the Company s historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Determining liabilities for the Company s property and casualty insurance products also requires the use of assumptions, including the projected levels of used vehicle prices, the frequency and severity of claims, and the effectiveness of internal processes designed to reduce the level of claims. The Company s results depend significantly upon the extent to which its actual claims experience is consistent with the assumptions the Company used in determining its reserves and pricing its products. The Company s reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that it will pay for actual claims or the timing of those payments. In addition, effective January 1, 2007, the Company adopted FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS No. 155), related to its equity indexed annuity product. SFAS No. 155 requires that the Company determine a fair value for the liability related to this block of business at each balance sheet date, with changes in the fair value recorded through earnings. Changes in this liability may be significantly affected by interest rate fluctuations. As a result of the adoption of SFAS No. 157 at January 1, 2008, the Company made certain modifications to the method used to determine fair value for its liability related to equity indexed annuities to take into consideration factors such as policyholder behavior, the Company s credit rating and other market considerations. The impact of adopting SFAS No. 157 is discussed further in Note 10, *Fair Value of Financial Instruments*.

Guaranteed minimum withdrawal benefits

The Company also establishes liabilities for guaranteed minimum withdrawal benefits (GMWB) on its variable annuity products. The GMWB is valued in accordance with SFAS No. 133 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, primarily about mortality and lapses, equity market and interest returns, market volatility and the Company s credit rating. The Company assumes 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.

As a result of the adoption of SFAS No. 157 at January 1, 2008, the Company made certain modifications to the method used to determine fair value for its liability related embedded derivatives related to annuities with guaranteed minimum withdrawal benefits to take into consideration factors such as policyholder behavior, the Company s credit rating and other market considerations. See Note 10, *Fair Value of Financial Instruments* for more information related to the impact of adopting SFAS No. 157.

Goodwill

Goodwill is tested for impairment at least annually. The Company evaluates the carrying value of goodwill during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of a 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 the fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. The Company plans to evaluate goodwill during the fourth quarter and determine if an adjustment will be necessary in accordance with FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

Table of Contents

2. NON-RECOURSE FUNDING OBLIGATIONS

Non-recourse funding obligations outstanding as of September 30, 2008, 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	5.10%
Golden Gate II Captive Insurance Company	575,000	2052	3.95%
Total	$ 1,375,000		

3. COMMITMENTS AND CONTINGENT LIABILITIES

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 our 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 the financial condition or results of the operations of the Company.

Table of Contents

4. STOCK-BASED COMPENSATION

Performance shares awarded during the first nine months of 2008 and 2007, and their estimated fair value at grant date are as follows:

Year Awarded	Performance Shares	Estimated Fair Value	Year Awarded	Performance Shares	Estimated Fair Value
	(Dollars In Thousands, Except Share Amounts)				
2008	75,900	$ 2,900	2007	64,700	$ 2,800

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.

During the first nine months of 2008, 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 in four equal annual installments beginning one year after the date of grant (earlier upon the death, disability, or retirement of the officer, or in certain circumstances, upon a change in control of the Company) and expire after ten years or upon termination of employment. The SARs activity as well as weighted-average base price for the first nine months of 2008 is as follows:

	Weighted-Average Base Price	Number of SARs
Balance at December 31, 2007	$ 31.98	1,262,704
SARs granted	38.59	327,500
SARs exercised	32.67	(32,131)
Balance at September 30, 2008	$ 33.36	1,558,073

The SARs issued in 2008 had estimated fair values at grant date of $2.2 million. The fair value of the 2008 SARs was estimated using a Black-Scholes option pricing model. Significant assumptions used in the model for the 2008 SARs were as follows:expected volatility ranged from 16.4% to 22.1%, the risk-free interest rate ranged from 2.7% to 3.3%, a dividend rate of 2.1%, a 4.0% forfeiture rate, and the expected exercise date ranged from 2013 to 2016. The Company will pay an amount in stock equal to the difference between the specified base price of the Company s Common Stock and the market value at the exercise date for each SAR.

Additionally during 2008, the Company issued 13,100 restricted stock units at an average fair value of $39.07 per unit. These awards, with a total fair value of $0.5 million, vest ten years after the date of grant.

Table of Contents

5. DEFINED BENEFIT PENSION PLAN AND UNFUNDED EXCESS BENEFITS PLAN

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(Dollars In Thousands)			
Service cost - Benefits earned during the period	$ 2,155	$ 2,016	$ 7,193	$ 6,657
Interest cost on projected benefit obligations	2,316	2,169	7,731	7,163
Expected return on plan assets	(2,571)	(2,405)	(8,582)	(7,943)
Amortization of prior service cost	49	46	164	152
Amortization of actuarial losses	748	699	2,496	2,309
Net periodic benefit cost	$ 2,697	$ 2,525	$ 9,002	$ 8,338

As of September 30, 2008, no contributions have been made to the defined benefit pension plan. The Company does not expect to make a contribution to the defined benefit pension plan during the fourth quarter of 2008.

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. The cost of these plans for the nine months ended September 30, 2008 and 2007 was immaterial to the Company s financial position.

Table of Contents

6. EARNINGS PER SHARE

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

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(Dollars In Thousands, Except Per Share Amounts)			
Calculation of basic earnings (loss) per share:				
Net income (loss)	$ (100,008)	$ 72,992	$ (25,942)	$ 228,680
Average share issued and outstanding	70,130,015	70,031,170	70,114,522	70,019,383
Issuable under various deferred compensation plans	985,350	1,043,449	989,861	1,036,586
Weighted shares outstanding - Basic	71,115,365	71,074,619	71,104,383	71,055,969
Basic earnings (loss) per share	$ (1.41)	$ 1.03	$ (0.36)	$ 3.22
Calculation of diluted earnings (loss) per share:				
Net income (loss)	$ (100,008)	$ 72,992	$ (25,942)	$ 228,680
Weighted shares outstanding - Basic	71,115,365	71,074,619	71,104,383	71,055,969
Stock appreciation rights (SARs)(1)	126,779	215,107	167,911	243,930
Issuable under various other stock-based compensation plans	125,355	165,869	141,230	172,337
Restricted stock units	13,399	11,414	12,086	9,235
Weighted shares outstanding - Diluted	71,380,898	71,467,009	71,425,610	71,481,471
Diluted earnings (loss) per share	$ (1.40)	$ 1.02	$ (0.36)	$ 3.20

(1) Excludes 680,920 and 358,820 SARs as of September 30, 2008 and 2007, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such right would be dilutive to the Company s earnings (loss) per share and will be included in the Company s calculation of the diluted average shares outstanding.

Table of Contents

7. COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(Dollars In Thousands)			
Net income (loss)	$ (100,008)	$ 72,992	$ (25,942)	$ 228,680
Change in net unrealized gains on investments, net of income tax: (three months: 2008 - $(310,166); 2007 - $33,525 nine months: 2008 - $(556,570); 2007 - $(46,191))	(567,195)	61,916	(1,017,865)	(84,584)
Change in accumulated gain-hedging, net of income tax: (three months: 2008 - $(8,121); 2007 - $(4,303) nine months: 2008 - $(4,703); 2007 - $(5,251))	(15,226)	(7,753)	(8,465)	(9,461)
Minimum pension liability adjustment, net of income tax: (three months: 2008 - $195; 2007 - $672 nine months: 2008 - $511; 2007 - $672)	316	1,247	949	1,247
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2008 - $76,837; 2007 - $(1,347) nine months: 2008 - $97,245; 2007 - $(3,093))	140,034	(2,489)	177,616	(5,663)
Reclassification adjustment for hedging amounts included in net income, net of income tax: (three months: 2008 - $(288); 2007 - $278 nine months: 2008 - $49; 2007 - $177)	88	500	89	319
Comprehensive income (loss)	$ (541,991)	$ 126,413	$ (873,618)	$ 130,538

8. OPERATING SEGMENTS

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

- The Life Marketing segment markets level premium term insurance (traditional), UL, variable universal life and 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.

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

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

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

Table of Contents

- 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 and assets as it uses to measure consolidated net income (loss) and assets. Segment operating income is generally income before income tax excluding net realized investment gains and losses (net of the related amortization of DAC/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. Segment operating income represents the basis on which the performance of the Company s business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on statutory policy liabilities, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

There were no significant intersegment transactions.

Table of Contents

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

	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
	(Dollars In Thousands)			
Revenues				
Life Marketing	$ 279,307	$ 264,116	$ 775,293	$ 769,860
Acquisitions	161,372	221,430	567,949	680,582
Annuities	76,189	80,490	254,405	231,968
Stable Value Products	96,238	73,168	259,602	224,589
Asset Protection	74,554	87,463	222,830	249,704
Corporate and Other	(177,576)	67,268	(159,692)	169,688
Total revenues	$ 510,084	$ 793,935	$ 1,920,387	$ 2,326,391
Segment Operating Income				
Life Marketing	$ 52,222	$ 39,974	$ 136,798	$ 143,088
Acquisitions	33,021	30,375	101,111	93,438
Annuities	556	6,436	12,532	18,711
Stable Value Products	28,184	13,107	61,945	37,648
Asset Protection	8,186	9,905	24,702	31,511
Corporate and Other	(32,173)	2,342	(64,239)	2,819
Total segment operating income	89,996	102,139	272,849	327,215
Realized investment (losses) gains - investments(1)	(350,399)	43,070	(491,434)	(19,128)
Realized investment (losses) gains - derivatives(2)	100,461	(37,792)	169,711	34,099
Income tax benefit (expense)	59,934	(34,425)	22,932	(113,506)
Net income (loss)	$ (100,008)	$ 72,992	$ (25,942)	$ 228,680

(1) Realized investment (losses) gains - investments	$ (351,102)	$ 43,114	$ (491,558)	$ (10,201)
Less: participating income from real estate ventures				6,857
Less: related amortization of DAC	(703)	44	(124)	2,070
	$ (350,399)	$ 43,070	$ (491,434)	$ (19,128)
(2) Realized investment gains (losses) - derivatives	$ 91,991	$ (37,467)	$ 155,421	$ 36,523
Less: settlements on certain interest rate swaps	1,915	132	4,185	626
Less: derivative activity related to certain annuities	(10,385)	193	(18,475)	1,798
	$ 100,461	$ (37,792)	$ 169,711	$ 34,099

Table of Contents

Operating Segment Assets
September 30, 2008
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 7,830,578	$ 10,203,761	$ 7,673,160	$ 5,995,532
Deferred policy acquisition costs and value of business acquired	2,497,526	962,600	363,220	16,622
Goodwill	10,192	48,783		
Total assets	$ 10,338,296	$ 11,215,144	$ 8,036,380	$ 6,012,154

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 945,692	$ 4,389,048	$ 26,937	$ 37,064,708
Deferred policy acquisition costs and value of business acquired	121,205	4,782		3,965,955
Goodwill	63,070	83		122,128
Total assets	$ 1,129,967	$ 4,393,913	$ 26,937	$ 41,152,791

Operating Segment Assets
December 31, 2007
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 9,830,156	$ 11,218,519	$ 7,732,288	$ 5,035,479
Deferred policy acquisition costs and value of business acquired	2,071,508	950,174	221,516	16,359
Goodwill	10,192	44,741		
Total assets	$ 11,911,856	$ 12,213,434	$ 7,953,804	$ 5,051,838

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 1,360,218	$ 3,063,927	$ 27,595	$ 38,268,182
Deferred policy acquisition costs and value of business acquired	140,568	368		3,400,493
Goodwill	62,350	83		117,366
Total assets	$ 1,563,136	$ 3,064,378	$ 27,595	$ 41,786,041

Table of Contents

9. GOODWILL

During the nine months ended September 30, 2008, the Company increased its goodwill balance by approximately $4.8 million. The increase was due to an increase of $4.1 million in the Acquisitions segment and a $0.7 million increase in the Asset Protection segment. The Acquisitions segment increase reflects the net of a purchase accounting adjustment, which was partially offset by an adjustment related to tax benefits realized during the first nine months of 2008 on the portion of tax goodwill in excess of GAAP basis goodwill. The Asset Protection segment increased by $0.4 million due to the purchase of a small administrative subsidiary and $0.6 million due to a contingent consideration related to the Western General acquisition. These increases were partially offset by a decrease of $0.3 million due to the sale of a small insurance subsidiary during the first quarter of 2008. As of September 30, 2008, the Company had an aggregate goodwill balance of $122.1 million.

The Company tests its goodwill balance annually, during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of a 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) adverse action or assessment by a regulator. Additionally, a decline in the market capitalization or market value of an entity s securities may or may not be indicative of a triggering event to perform an interim or event driven impairment analysis. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit soverall carrying value (including goodwill) to determine if factors are present that would be indicative of impairment. The Company reviews the market values and carrying values of its reporting units on an ongoing basis and has determined that no such factors were noted as of or during the period ended September 30, 2008. The Company will perform its full assessment of goodwill during the fourth quarter of 2008.

10. 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 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 Balance Sheets are categorized as follows:

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

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

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

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

c) Inputs other than quoted market prices that are observable

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

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

Table of Contents

As a result of the adoption of SFAS No. 157, the Company recognized the following adjustment to opening retained earnings for its Equity Indexed Annuities that were previously accounted for under SFAS No. 155:

	Carrying Value Prior to Adoption January 1, 2008	Carrying Value After Adoption January 1, 2008 (Dollars In Thousands)	Transition Adjustment to Retained Earnings Gain (Loss)
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.

Table of Contents

The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2008:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Mortgage-backed and asset-backed securities	$	$ 5,405,742	$ 1,630,179	$ 7,035,921
US government and authorities	55,792	21,229		77,021
State, municipalities and political subdivisions		30,945	97	31,042
Public utilities		1,721,099		1,721,099
All other corporate bonds		9,739,652	61,336	9,800,988
Redeemable preferred stocks			36	36
Convertible bonds with warrants		37		37
Total fixed maturity securities - available-for-sale	55,792	16,918,704	1,691,648	18,666,144
Fixed maturity securities - trading	284,072	3,111,230	23,463	3,418,765
Total fixed maturity securities	339,864	20,029,934	1,715,111	22,084,909
Equity securities	221,103	14,927	76,359	312,389
Other long-term investments (1)	6,414	13,584	148,060	168,058
Short-term investments	896,604	89,644	1,356	987,604
Total investments	1,463,985	20,148,089	1,940,886	23,552,960
Cash	86,587			86,587
Other assets	4,920			4,920
Assets related to separate acccounts				
Variable annuity	2,426,806			2,426,806
Variable universal life	297,687			297,687
Total assets measured at fair value on a recurring basis	$ 4,279,985	$ 20,148,089	$ 1,940,886	$ 26,368,960
Liabilities:				
Annuity account balances (2)	$	$	$ 154,154	$ 154,154
Other liabilities (1)		49,798	13,430	63,228
Total liabilities measured at fair value on a recurring basis	$	$ 49,798	$ 167,584	$ 217,382

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

Table of Contents

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

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

(1) Represents certain freestanding and embedded derivatives

(2) Represents liabilities related to equity indexed annuities

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2008, for which we have 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							
Mortgage-backed and asset-backed securities	$ 1,290,299	$	$ (63,138)	$ 516,643	$ (113,625)	$ 1,630,179	$
State, municipalities and political subdivisions	9,126		(92)	(3)	(8,934)	97	
Public utilities	176,473		(9,762)	(12,002)	(154,709)		
All other corporate bonds	2,248,703	(41,514)	(161,520)	(348,222)	(1,636,111)	61,336	
Redeemable preferred stocks	36						