PROTECTIVE LIFE CORP
Form 10-Q
August 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 x No o

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

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

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

Number of shares of Common Stock, $0.50 Par Value, outstanding as of July 24, 2012: 80,049,106

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PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED JUNE 30, 2012

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended June 30, 2012	For The Three Months Ended June 30, 2011(2)	For The Six Months Ended June 30, 2012	For The Six Months Ended June 30, 2011(2)
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	$ 711,429	$ 716,586	$ 1,407,734	$ 1,382,929
Reinsurance ceded	(344,673)	(364,248)	(649,231)	(696,056)
Net of reinsurance ceded	366,756	352,338	758,503	686,873
Net investment income	456,222	448,785	918,343	892,998
Realized investment gains (losses):				
Derivative financial instruments	(48,268)	(34,993)	(78,177)	(47,679)
All other investments	65,593	58,917	101,319	63,389
Other-than-temporary impairment losses	(13,670)	(15,632)	(48,090)	(31,653)
Portion recognized in other comprehensive income (before taxes)	62	6,145	15,718	16,503
Net impairment losses recognized in earnings	(13,608)	(9,487)	(32,372)	(15,150)
Other income	81,480	87,224	192,740	159,433
Total revenues	908,175	902,784	1,860,356	1,739,864
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2012 - $306,172; 2011 - $357,165; six months: 2012 - $587,979; 2011 - $670,271)	568,522	551,553	1,158,151	1,087,922
Amortization of deferred policy acquisition costs and value of business acquired	67,188	65,718	124,024	130,944
Other operating expenses, net of reinsurance ceded: (three months: 2012 - $45,978; 2011 - $48,810; six months: 2012 - $92,609; 2011 - $94,070)	164,778	150,674	319,915	295,445
Total benefits and expenses	800,488	767,945	1,602,090	1,514,311
Income before income tax	107,687	134,839	258,266	225,553
Income tax expense	31,532	46,920	83,090	78,807
Net income	76,155	87,919	175,176	146,746
Less: Net income attributable to noncontrolling interests		296		245
Net income available to PLC s common shareowners(1)	$ 76,155	$ 87,623	$ 175,176	$ 146,501
Net income available to PLC s common shareowners - basic	$ 0.93	$ 1.01	$ 2.14	$ 1.69
Net income available to PLC s common shareowners - diluted	$ 0.91	$ 1.00	$ 2.10	$ 1.67
Cash dividends paid per share	$ 0.18	$ 0.16	$ 0.34	$ 0.30
Average shares outstanding - basic	81,639,756	86,346,216	81,985,649	86,474,012
Average shares outstanding - diluted	83,243,703	87,653,731	83,583,025	87,736,449

(1) Protective Life Corporation (PLC)

(2)Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2012	2011(1)	2012	2011(1)
	(Dollars In Thousands)			
Net income	$ 76,155	$ 87,919	$ 175,176	$ 146,746
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2012 - $172,798; 2011 - $86,927; six months: 2012 - $178,106; 2011 - $105,370)	320,913	161,440	330,769	195,698
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2012 - $(886); 2011 - $(7,271); six months: 2012 - $(1,335); 2011 - $(10,325))	(1,647)	(13,508)	(2,480)	(19,186)
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2012 - $1,391; 2011 - $(5,444); six months: 2012 - $2,962; 2011 - $(9,052))	2,583	(10,111)	5,500	(16,811)
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2012 - $(2,497); 2011 - $(1,777); six months: 2012 - $911; 2011 - $1,844)	(4,637)	(3,299)	1,693	3,425
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2012 - $362; 2011 - $238; six months: 2012 - $61; 2011 - $(123))	672	443	113	(228)
Change in postretirement benefits liability adjustment, net of income tax: (three months: 2012 - $(728); 2011 - $(451); six months: 2012 - $(1,456); 2011 - $(902))	(1,351)	(838)	(2,703)	(1,676)
Total other comprehensive income	316,533	134,127	332,892	161,222
Comprehensive income	392,688	222,046	508,068	307,968
Comprehensive income attributable to noncontrolling interests		(296)		(245)
Total comprehensive income attributable to Protective Life Corporation	$ 392,688	$ 221,750	$ 508,068	$ 307,723

(1)Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	As of	
	June 30, 2012	**December 31, 2011**
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2012 - $26,450,813; 2011 - $26,137,960)	$ 28,850,496	$ 27,983,446
Equity securities, at fair value (cost: 2012 - $355,460; 2011 - $345,874)	350,503	335,232
Mortgage loans (includes amounts related to securitizations of: 2012 - $805,575; 2011 - $858,139)	5,203,999	5,353,481
Investment real estate, net of accumulated depreciation (2012 - $1,247; 2011 - $1,547)	20,582	29,899
Policy loans	870,775	879,819
Other long-term investments	333,358	257,714
Short-term investments	89,495	101,489
Total investments	35,719,208	34,941,080
Cash	219,877	267,298
Accrued investment income	354,282	350,580
Accounts and premiums receivable, net of allowance for uncollectible amounts (2012 - $4,033; 2011 - $3,899)	111,362	84,754
Reinsurance receivables	5,716,333	5,645,471
Deferred policy acquisition costs and value of business acquired	3,208,319	3,248,041
Goodwill	110,110	111,659
Property and equipment, net of accumulated depreciation (2012 - $138,256; 2011 - $134,924)	48,307	48,578
Other assets	164,354	150,549
Income tax receivable	62,316	50,783
Assets related to separate accounts		
Variable annuity	7,949,926	6,741,959
Variable universal life	530,630	502,617
Total assets	$ 54,195,024	$ 52,143,369
Liabilities		
Policy liabilities and accruals	$ 22,467,333	$ 22,126,774
Stable value product account balances	2,676,312	2,769,510
Annuity account balances	10,774,666	10,946,848
Other policyholders funds	539,364	546,516
Other liabilities	1,157,689	1,065,451
Mortgage loan backed certificates		19,755
Deferred income taxes	1,430,027	1,260,629
Non-recourse funding obligations	297,000	407,800
Repurchase program borrowings	200,000	
Debt	1,510,000	1,520,000
Subordinated debt securities	515,593	524,743
Liabilities related to separate accounts		
Variable annuity	7,949,926	6,741,959
Variable universal life	530,630	502,617
Total liabilities	50,048,540	48,432,602
Commitments and contingencies - Note 9		
Shareowners equity		
Preferred Stock, $1 par value, shares authorized: 4,000,000; Issued: None		
	44,388	44,388

Common Stock, $.50 par value, shares authorized: 2012 and 2011 - 160,000,000; shares issued: 2012 and 2011 - 88,776,960				
Additional paid-in-capital		603,045		598,106
Treasury stock, at cost (2012 - 8,730,702 shares; 2011 - 7,107,765 shares)		(157,412)		(107,740)
Retained earnings		2,338,877		2,191,319
Accumulated other comprehensive income (loss):				
Net unrealized gains (losses) on investments, net of income tax: (2012 -$765,903; 2011 - $589,132)		1,422,392		1,094,103
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2012 - $(15,466); 2011 - $(18,428))		(28,724)		(34,224)
Accumulated loss - derivatives, net of income tax: (2012 - $(3,139); 2011 - $(4,111))		(5,828)		(7,634)
Postretirement benefits liability adjustment, net of income tax: (2012 -$(37,426); 2011 - $(35,970))		(69,504)		(66,801)
Total Protective Life Corporation s shareowners equity		4,147,234		3,711,517
Noncontrolling interest		(750)		(750)
Total equity		4,146,484		3,710,767
Total liabilities and shareowners equity	$	54,195,024	$	52,143,369

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS EQUITY

(Unaudited)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Protective Life Corporation s shareowners equity	Non controlling Interest	Total Equity
				(Dollars In Thousands)				
Balance, December 31, 2011	$ 44,388	$ 598,106	$ (107,740)	$ 2,191,319	$ 985,444	$ 3,711,517	$ (750)	$ 3,710,767
Net income for the three months ended March 31, 2012				99,021		99,021		99,021
Other comprehensive income					16,359	16,359		16,359
Comprehensive income for the three months ended March 31, 2012						115,380		115,380
Cash dividends ($0.16 per share)				(13,073)		(13,073)		(13,073)
Repurchase of common stock			(25,977)			(25,977)		(25,977)
Stock-based compensation		(4,176)	2,139			(2,037)		(2,037)
Balance, March 31, 2012	$ 44,388	$ 593,930	$ (131,578)	$ 2,277,267	$ 1,001,803	$ 3,785,810	$ (750)	$ 3,785,060
Net income for the three months ended June 30, 2012				76,155		76,155		76,155
Other comprehensive income					316,533	316,533		316,533
Comprehensive income for the three months ended June 30, 2012						392,688		392,688
Cash dividends ($0.18 per share)				(14,545)		(14,545)		(14,545)
Repurchase of common stock			(26,775)			(26,775)		(26,775)
Stock-based compensation		9,115	941			10,056		10,056
Balance, June 30, 2012	$ 44,388	$ 603,045	$ (157,412)	$ 2,338,877	$ 1,318,336	$ 4,147,234	$ (750)	$ 4,146,484

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Six Months Ended June 30, 2012	For The Six Months Ended June 30, 2011(1)
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 175,176	$ 146,746
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	9,230	(560)
Amortization of deferred policy acquisition costs and value of business acquired	124,024	130,944
Capitalization of deferred policy acquisition costs	(131,865)	(213,321)
Depreciation expense	4,527	4,478
Deferred income tax	(32,792)	51,091
Accrued income tax	(11,533)	5,646
Interest credited to universal life and investment products	485,550	490,348
Policy fees assessed on universal life and investment products	(379,426)	(343,102)
Change in reinsurance receivables	(70,862)	(112,485)
Change in accrued investment income and other receivables	4,801	(21,578)
Change in policy liabilities and other policyholders funds of traditional life and health products	60,603	57,235
Trading securities:		
Maturities and principal reductions of investments	151,362	172,470
Sale of investments	332,332	456,232
Cost of investments acquired	(470,663)	(498,105)
Other net change in trading securities	32,547	2,549
Change in other liabilities	(115,963)	(65,216)
Other income - surplus note repurchase	(35,456)	(30,667)
Other, net	20,119	22,130
Net cash provided by operating activities	151,711	254,835
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	629,778	935,399
Sale of investments, available-for-sale	1,178,337	1,746,847
Cost of investments acquired, available-for sale	(2,039,344)	(2,633,559)
Mortgage loans:		
New lendings	(143,721)	(276,254)
Repayments	288,402	245,496
Change in investment real estate, net	8,892	369
Change in policy loans, net	9,044	12,252
Change in other long-term investments, net	(41,388)	(76,580)
Change in short-term investments, net	(30,497)	109,352
Net unsettled security transactions	59,803	187,885
Purchase of property and equipment	(3,667)	(6,927)
Payments for business acquisitions		(209,609)
Net cash (used in) provided by investing activities	(84,361)	34,671
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	342,500	10,000
Principal payments on line of credit arrangement and debt	(361,650)	(17,000)
Repayment of non-recourse funding obligations	(110,800)	(94,100)

Repurchase program borrowings		200,000		
Dividends to shareowners		(27,618)		(25,714)
Repurchase of common stock		(52,752)		(24,893)
Investment product deposits and change in universal life deposits		1,711,087		2,101,553
Investment product withdrawals		(1,809,786)		(2,060,672)
Other financing activities, net		(5,752)		(23,895)
Net cash used in financing activities		(114,771)		(134,721)
Change in cash		(47,421)		154,785
Cash at beginning of period		267,298		264,425
Cash at end of period	$	219,877	$	419,210

(1)Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

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 (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 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 six month period ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The year-end consolidated condensed financial data was derived from audited financial statements, after the retrospective application of the matter discussed in Note 5, *Deferred Acquisition Costs and Value of Business Acquired*, but does not include all disclosures required by 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, 2011 and the Form 8-K filed on May 14, 2012.

The operating results of companies in the insurance industry have historically been subject to significant fluctuations due to changing competition, economic conditions, interest rates, investment performance, insurance ratings, claims, persistency, and other factors.

In January of 2012, the Company adopted ASU No. 2010-26 which changed how the Company accounts for its deferred acquisition costs. See Note 2, *Summary of Significant Policies* and Note 5, *Deferred Acquisition Costs and Value of Business Acquired*.

Reclassifications and Accounting Changes

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. Current and prior period operating income results within the Annuities segment have been updated to reflect the revised definition of operating income (loss) as it relates to embedded derivatives on our variable annuity contracts and the related hedging activities. This change did not impact its comparable GAAP measure income before income tax. See Note 16, *Operating Segments* and Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations* Results of Operations for additional information.

In January of 2012, the Company adopted ASU No. 2010-26 which changed certain previously reported items within the Company s financial statements and accompanying notes. The changes affected previously reported amounts in the financial statements, Note 3, *Significant Acquisitions*, Note 5, *Deferred Acquisition Costs and Value of Business Acquired*, Note 12, *Earnings Per Share*, Note 13, *Income Taxes*, and Note 16, *Operating Segments*.

Entities Included

The consolidated condensed financial statements include the accounts of Protective Life Corporation and subsidiaries and its affiliate companies in which the Company holds a majority voting or economic interest. Intercompany balances and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Polices

Deferred Policy Acquisition Costs

In the first quarter of 2012, the Company adopted ASU No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is

to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts.

The incremental direct costs associated with successfully acquired insurance policies, are deferred to the extent such costs are deemed recoverable from future profits. Such costs include commissions and other costs of acquiring traditional life and health insurance, credit insurance, universal life insurance, and investment products. Deferred acquisition costs (DAC) is subject to recoverability testing at the end of each accounting period. Traditional life and health insurance acquisition costs are amortized over the premium-payment period of the related policies in proportion to the ratio of annual premium income to the present value of the total anticipated premium income. Credit insurance acquisition costs are being amortized in proportion to earned premium. Acquisition costs for universal life and investment products are amortized over the lives of the policies in relation to the present value of estimated gross profits before amortization.

Based on the Accounting Standards Codification (ASC or Codification) Financial Services-Insurance Topic, the Company makes certain assumptions regarding the mortality, persistency, expenses, and interest rates the Company expects to experience in future periods. These assumptions are to be best estimates and are periodically updated whenever actual experience and/or expectations for the future change from that assumed. Additionally, using guidance from ASC Investments-Debt and Equity Securities Topic, these costs have been adjusted by an amount equal to the amortization that would have been recorded if unrealized gains or losses on investments associated with our universal life and investment products had been realized. Acquisition costs for stable value contracts are amortized over the term of the contracts using the effective yield method.

Accounting Pronouncements Recently Adopted

Accounting Standard Update (ASU or Update) No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts. This Update was effective for the Company on January 1, 2012. The Company retrospectively adopted this Update, which resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers. For additional information on the effect this Update had on the Company, see Note 5, *Deferred Policy Acquisition Costs and Value of Business Acquired*.

ASU No. 2011-03 Transfers and Servicing - Reconsideration of Effective Control for Repurchase Agreements This Update amends the assessment of effective control for repurchase agreements to remove 1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and 2) the collateral maintenance implementation guidance related to the criterion. The Board determined that these criterion should not be a determining factor of effective control. This Update was effective for the first interim or annual period beginning on or after December 15, 2011. For the Company, the Update was applied to all repurchase agreements beginning January 1, 2012. The Company has modified its policies and procedures to ensure compliance with the updated guidance. There was no impact to the Company s results of operations or financial position as a result of this

adoption.

ASU No. 2011-04 Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (IFRSs). The intent of this Update was not to change the application of the requirements in Topic 820. Some of the amendments clarify the intent regarding the application of existing fair value measurement requirements. The Update expanded requirements for disclosing information about fair value measurements. These changes were effective for interim and annual periods beginning after December 15, 2011. The Company has

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included the required additional disclosures in Note 14, *Fair Value of Financial Instruments*, and has modified its policies and processes to ensure compliance with the updated guidance.

ASU No. 2011-05 Comprehensive Income Presentation of Comprehensive Income. In this Update, a company has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in 1) a single continuous statement of comprehensive income, or 2) in two separate but consecutive statements. In both choices, a company is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The Company has implemented the two-statement report format outlined in ASU No. 2011-05 beginning in the first quarter of 2012. The amendments in this Update do not change the items that must be reported in other comprehensive income, or the timing of its subsequent reclassification to net income. This Update was effective January 1, 2012.

Commensurate with the effective date of ASU No. 2011-05, the requirement to present reclassifications from other comprehensive income on the face of the income statement, was deferred indefinitely by ASU No. 2011-12 Comprehensive Income Deferral of the Effective for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.

Accounting Pronouncements Not Yet Adopted

ASU No. 2011-11 Balance Sheet Disclosures about Offsetting Assets and Liabilities. This Update contains new disclosure requirements regarding the nature of an entity s rights of offset and related arrangements associated with its financial and derivative instruments. The new disclosures are designed to make financial statements that are prepared under GAAP more comparable to those prepared under IFRSs. Generally, it is more difficult to qualify for offsetting under IFRSs than it is under GAAP. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with GAAP. To facilitate comparison between financial statements prepared under GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. This Update is effective January 1, 2013. This Update will not have an impact on the Company s results of operations or financial position.

ASU No. 2012-02 Intangibles-Goodwill and Other Testing Indefinite-Lived Intangible Assets for Impairment. This Update is intended to reduce the complexity and cost of performing an impairment test for indefinite-lived intangible assets by allowing an entity the option to make a qualitative evaluation about the likelihood of impairment prior to the quantitative calculation required by current guidance. Under the amendments to Topic 350, an entity has the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. If an entity determines it is not more likely than not that impairment exists, quantitative impairment testing is not required. However, if an entity concludes otherwise, the impairment test outlined in current guidance is required to be completed. The Update does not change the current requirement that indefinite-lived intangible assets be reviewed for impairment at least annually.

This Update is effective January 1, 2013. The Company is currently assessing the impact of this Update on its accounting and reporting processes.

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 Annual Report on Form 10-K for the year ended December 31, 2011 and the Form 8-K filed on May 14, 2012. There were no significant changes to the Company s accounting policies during the six months ended June 30, 2012, except as noted above. See Note 5, *Deferred Policy Acquisition Costs and Value of Business Acquired* for additional information on the accounting policies.

3. SIGNIFICANT ACQUISITIONS

On April 29, 2011, Protective Life Insurance Company (PLICO) closed a previously announced reinsurance transaction with Liberty Life Insurance Company (Liberty Life) under the terms of which PLICO reinsured substantially all of the life and health business of Liberty Life. The transaction closed in conjunction with Athene Holding Ltd s acquisition of Liberty Life from an affiliate of Royal Bank of Canada. The capital invested by

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PLICO in the transaction at closing was $321 million, including a $225 million ceding commission. In conjunction with the closing, PLICO invested $40 million in a surplus note issued by Athene Life Re. The Company accounted for this transaction in a manner consistent with the purchase method of accounting as required by the Financial Accounting Standards Board (FASB) guidance under the ASC Business Combinations topic. This guidance requires that the total consideration paid be allocated to the assets acquired and liabilities assumed based on their fair values at the transaction date.

The following (unaudited) pro forma condensed consolidated results of operations assumes that the aforementioned transaction with Liberty Life was completed as of January 1, 2010:

	For The Three Months Ended June 30, 2011	For The Six Months Ended June 30, 2011
	(Dollars In Thousands)	
Revenue	$ 923,426	$ 1,822,693
Net income	$ 88,265	$ 147,538
EPS - basic	$ 1.02	$ 1.71
EPS - diluted	$ 1.01	$ 1.68

4. INVESTMENT OPERATIONS

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars In Thousands)			
Fixed maturities	$ 15,994	$ 30,196	$ 36,040	$ 35,491
Equity securities	148	70	148	9,170
Impairments on fixed maturity securities	(13,608)	(9,487)	(32,372)	(15,150)
Modco trading portfolio	56,063	33,603	74,162	27,954
Other investments	(6,612)	(4,952)	(9,031)	(9,226)
Total realized gains (losses) - investments	$ 51,985	$ 49,430	$ 68,947	$ 48,239

For the three and six months ended June 30, 2012, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $16.2 million and $39.4 million and gross realized losses were $13.6 million and $35.4 million, including $13.5 million and $32.2 million of impairment losses, respectively.

For the three and six months ended June 30, 2011, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $31.8 million and $46.4 million and gross realized losses were $10.8 million and $16.6 million, including $9.2 million and $14.8 million of impairment losses, respectively. The $9.2 million and $14.8 million excludes $0.3 million and $0.4 million of impairment losses in the trading portfolio, respectively.

For the three and six months ended June 30, 2012, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $411.8 million and $900.1 million, respectively. The gain realized on the sale of these securities was $16.2 million and $39.4 million, respectively. For the three and six months ended June 30, 2011, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $1.3 billion and $1.5 billion, respectively. The gain realized on the sale of these securities was $31.8 million and $46.4 million, respectively.

For the three and six months ended June 30, 2012, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $0.3 million and $17.5 million, respectively. The losses realized on the sale of these securities were $0.1 million and $3.2 million, respectively. For the three and six months ended June 30, 2011, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $142.9 million and

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$162.9 million, respectively. The losses realized on the sale of these securities were $1.6 million and $1.8 million, respectively.

Certain European countries have experienced varying degrees of financial stress. Risks from the continued debt crisis in Europe could continue to disrupt the financial markets which could have a detrimental impact on global economic conditions and on sovereign and non-sovereign obligations. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on financial markets. The chart shown below includes the Company s non-sovereign fair value exposures in these countries as of June 30, 2012. As of June 30, 2012, the Company had no unfunded exposure and had no direct sovereign fair value exposure.

Financial Instrument and Country	Non-sovereign Debt Financial	Non-sovereign Debt Non-financial	Total Gross Funded Exposure
		(Dollars In Millions)	
Securities:			
United Kingdom	$ 320.9	$ 391.2	$ 712.1
Switzerland	124.0	205.2	329.2
France	99.2	86.8	186.0
Sweden	158.3		158.3
Netherlands	94.5	87.2	181.7
Spain	39.2	90.7	129.9
Belgium		89.6	89.6
Germany	25.7	58.5	84.2
Ireland	5.6	83.7	89.3
Luxembourg		56.9	56.9
Italy		41.6	41.6
Norway		14.1	14.1
Total securities	867.4	1,205.5	2,072.9
Derivatives:			
Germany	17.0		17.0
Switzerland	0.2		0.2
Total derivatives	17.2		17.2
	$ 884.6	$ 1,205.5	$ 2,090.1

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The amortized cost and fair value of the Company s investments classified as available-for-sale as of June 30, 2012 and December 31, 2011, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
			(Dollars In Thousands)		
2012					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 2,089,458	$ 94,822	$ (57,036)	$ 2,127,244	$ (30,802)
Commercial mortgage-backed securities	710,487	36,657	(1,313)	745,831	
Other asset-backed securities	1,008,490	6,817	(93,563)	921,744	(8,307)
U.S. government-related securities	1,240,975	77,755		1,318,730	
Other government-related securities	101,521	6,792	(137)	108,176	
States, municipals, and political subdivisions	1,158,705	237,455	(9)	1,396,151	
Corporate bonds	17,117,558	2,212,443	(121,000)	19,209,001	(5,081)
	23,427,194	2,672,741	(273,058)	25,826,877	(44,190)
Equity securities	337,281	7,732	(12,689)	332,324	
Short-term investments	46,093			46,093	
	$ 23,810,568	$ 2,680,473	$ (285,747)	$ 26,205,294	$ (44,190)
2011					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 2,345,578	$ 82,594	$ (86,042)	$ 2,342,130	$ (47,806)
Commercial mortgage-backed securities	531,322	24,466	(4,229)	551,559	
Other asset-backed securities	997,398	6,529	(90,898)	913,029	(6,559)
U.S. government-related securities	1,150,525	65,212	(58)	1,215,679	
Other government-related securities	88,058	4,959		93,017	
States, municipals, and political subdivisions	1,154,374	173,408		1,327,782	
Corporate bonds	16,910,738	1,920,142	(250,595)	18,580,285	1,787
	23,177,993	2,277,310	(431,822)	25,023,481	(52,578)
Equity securities	328,833	5,993	(16,635)	318,191	(74)
Short-term investments	15,649			15,649	
	$ 23,522,475	$ 2,283,303	$ (448,457)	$ 25,357,321	$ (52,652)

(1) These amounts are included in the gross unrealized gains and gross unrealized losses column above.

As of June 30, 2012 and December 31, 2011, respectively, the Company had an additional $3.0 billion and $3.0 billion of fixed maturities, $18.2 million and $17.0 million of equity securities, and $43.4 million and $85.8 million of short-term investments classified as trading securities.

The amortized cost and fair value of available-for-sale fixed maturities as of June 30, 2012, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Amortized Cost	Fair Value
	(Dollars In Thousands)	
Due in one year or less	$ 469,501	$ 474,255
Due after one year through five years	4,762,290	5,080,431
Due after five years through ten years	5,735,422	6,259,568
Due after ten years	12,459,981	14,012,623
	$ 23,427,194	$ 25,826,877

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) an assessment of the Company s intent to sell the security (including a more likely than not assessment of whether the Company will be required to sell the security) before recovering the security s amortized cost, 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

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issuer are significant measures considered, and in some cases, an analysis regarding the Company s expectations for recovery of the security s entire amortized cost basis through the receipt of future cash flows is performed. Once a determination has been made that a specific other-than-temporary impairment exists, the security s basis is adjusted and an other-than-temporary impairment is recognized. Equity securities that are other-than-temporarily impaired are written down to fair value with a realized loss recognized in earnings. Other-than-temporary impairments to debt securities that the Company does not intend to sell and does not expect to be required to sell before recovering the security s amortized cost are written down to discounted expected future cash flows (post impairment cost) and credit losses are recorded in earnings. The difference between the securities discounted expected future cash flows and the fair value of the securities is recognized in other comprehensive income (loss) as a non-credit portion of the recognized other-than-temporary impairment. When calculating the post impairment cost for residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS), the Company considers all known market data related to cash flows to estimate future cash flows. When calculating the post impairment cost for corporate debt securities, the Company considers all contractual cash flows to estimate expected future cash flows. To calculate the post impairment cost, the expected future cash flows are discounted at the original purchase yield. Debt securities that the Company intends to sell or expects to be required to sell before recovery are written down to fair value with the change recognized in earnings.

During the three and six months ended June 30, 2012, the Company recorded pre-tax other-than-temporary impairments of investments of $13.7 million and $48.1 million, respectively. Of the $13.7 million of impairments for the three months ended June 30, 2012, $13.6 million was recorded in earnings and $0.1 million was recorded in other comprehensive income (loss). Of the $48.1 million of impairments for the six months ended June 30, 2012, $32.4 million was recorded in earnings and $15.7 million was recorded in other comprehensive income (loss).

For the three and six months ended June 30, 2012, there was $13.7 million and $48.1 million of pre-tax other-than-temporary impairments related to debt securities, respectively, and an immaterial amount of impairments related to equity securities. For the three and six months ended June 30, 2012, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intended to sell or expected to be required to sell.

During the three and six months ended June 30, 2011, the Company recorded other-than-temporary impairments on investments of $15.7 million and $31.7 million, respectively, related to debt securities. Of the $15.7 million of impairments for the three months ended June 30, 2011, $9.5 million was recorded in earnings and $6.2 million was recorded in other comprehensive income (loss). Of the $31.7 million of impairments for the six months ended June 30, 2011, $15.2 million was recorded in earnings and $16.5 million was recorded in other comprehensive income (loss). During this period, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intends to sell or expects to be required to sell.

The following chart is a rollforward of available-for-sale credit losses on debt securities held by the Company for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (loss):

	For The Three Months Ended June 30,		**For The Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
	(Dollars In Thousands)			
Beginning balance	$ 88,352	$ 40,615	$ 69,719	$ 39,427
Additions for newly impaired securities	3,619	5,797	19,473	9,406
Additions for previously impaired securities	9,499	3,435	12,278	4,103
Reductions for previously impaired securities due to a change in expected cash flows				

Reductions for previously impaired securities that were sold in the current period								(3,089)
Ending balance	$	101,470	$	49,847	$	101,470	$	49,847

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The following table includes the gross unrealized losses and fair value of the Company s investments 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 June 30, 2012:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	$ 212,108	$ (13,512)	$ 360,891	$ (43,524)	$ 572,999	$ (57,036)
Commercial mortgage-backed securities	85,756	(1,313)			85,756	(1,313)
Other asset-backed securities	478,279	(41,230)	207,480	(52,333)	685,759	(93,563)
U.S. government-related securities						
Other government-related securities	14,863	(137)			14,863	(137)
States, municipals, and political subdivisions	509	(9)			509	(9)
Corporate bonds	1,017,092	(47,334)	562,291	(73,666)	1,579,383	(121,000)
Equities	13,496	(7,779)	28,047	(4,910)	41,543	(12,689)
	$ 1,822,103	$ (111,314)	$ 1,158,709	$ (174,433)	$ 2,980,812	$ (285,747)

The RMBS have a gross unrealized loss greater than twelve months of $43.5 million as of June 30, 2012. These losses are a result of continued weakness in the residential housing market which has reduced the fair value of the RMBS holdings. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $52.3 million as of June 30, 2012. This category predominately includes student-loan backed auction rate securities, the underlying collateral of which is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). These unrealized losses have occurred within the Company s auction rate securities (ARS) portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The corporate bonds category has gross unrealized losses greater than twelve months of $73.7 million as of June 30, 2012. These losses relate primarily to fluctuations in credit spreads. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information including the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The equities category has a gross unrealized loss greater than twelve months of $4.9 million as of June 30, 2012. These losses primarily relate to fluctuations in credit spreads on perpetual preferred stock holdings. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information including the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The Company does not consider these unrealized loss positions to be other-than-temporary, based on the factors discussed, and does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

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The following table includes the gross unrealized losses and fair value of the Company s investments 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 December 31, 2011:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(Dollars In Thousands)			
Residential mortgage-backed securities	$ 277,858	$ (15,447)	$ 527,120	$ (70,595)	$ 804,978	$ (86,042)
Commercial mortgage-backed securities	78,892	(4,229)			78,892	(4,229)
Other asset-backed securities	531,653	(32,074)	190,639	(58,824)	722,292	(90,898)
U.S. government-related securities	21,311	(58)			21,311	(58)
Other government-related securities						
States, municipals, and political subdivisions						
Corporate bonds	1,880,931	(132,297)	526,333	(118,298)	2,407,264	(250,595)
Equities	50,638	(8,436)	22,295	(8,199)	72,933	(16,635)
	$ 2,841,283	$ (192,541)	$ 1,266,387	$ (255,916)	$ 4,107,670	$ (448,457)

The RMBS have a gross unrealized loss greater than twelve months of $70.6 million as of December 31, 2011. These losses relate to a widening in spreads and defaults as a result of continued weakness in the residential housing market which have reduced the fair value of the RMBS holdings. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $58.8 million as of December 31, 2011. This category predominately includes student-loan backed auction rate securities, the underlying collateral of which is at least 97% guaranteed by the FFELP. These unrealized losses have occurred within the Company s ARS portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The corporate bonds category has gross unrealized losses greater than twelve months of $118.3 million as of December 31, 2011. These losses relate primarily to fluctuations in credit spreads. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information including the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The equities category has a gross unrealized loss greater than twelve months of $8.2 million as of December 31, 2011. These losses primarily relate to a widening in credit spreads on perpetual preferred stock holdings. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information including the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The Company does not consider these unrealized loss positions to be other-than-temporary, based on the factors discussed and does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

As of June 30, 2012, the Company had securities in its available-for-sale portfolio which were rated below investment grade of $1.7 billion and had an amortized cost of $1.9 billion. In addition, included in the Company s trading portfolio, the Company held $334.1 million of securities which were rated below investment grade. Approximately $414.7 million of the below investment grade securities were not publicly traded.

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars In Thousands)			
Fixed maturities	$ 340,781	$ 169,348	$ 360,227	$ 197,308
Equity securities	(1,411)	(3,372)	3,695	(3,788)

Securities Lending

In prior periods, the Company participated in securities lending, primarily as an enhancement to its investment yield. Securities that the Company held as investments were loaned to third parties for short periods of time. The Company required initial collateral, in the form of short-term investments, which equaled 102% of the market value of the loaned securities.

During the second quarter of 2011, the Company discontinued this program. Certain collateral assets, which the Company previously intended to ultimately dispose of and on which it recorded an other-than-temporary impairment of $1.3 million, were instead retained by the Company and are included in its fixed maturities as of June 30, 2012. The Company currently does not have any intent to sell these securities, and does not anticipate being required to sell them.

Mortgage Loans

Refer to Note 8, *Mortgage Loans* for information on the Company s mortgage loan portfolio.

5. DEFERRED POLICY ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

In the first quarter of 2012, the Company adopted ASU No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts. This Update was effective for the Company on January 1, 2012. The Company retrospectively adopted this Update, which resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers.

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The chart shown below summarizes the effect of these adjustments on the Company s balance sheet (only balances impacted by the Update are presented).

	As of December 31, 2011		
	As originally reported	As adjusted	Effect of Change
	(Dollars In Thousands)		
Assets:			
Deferred policy acquisition costs and value of business acquired	$ 4,036,757	$ 3,248,041	$ (788,716)
Total Assets	**$ 52,932,085**	**$ 52,143,369**	**$ (788,716)**
Liabilities:			
Deferred income taxes	$ 1,540,397	$ 1,260,629	$ (279,768)
Total liabilities	**$ 48,712,370**	**$ 48,432,602**	**$ (279,768)**
Equity:			
Retained earnings	$ 2,719,492	$ 2,191,319	$ (528,173)
Accumulated other comprehensive income (loss):			
Net unrealized gain (losses) on investments, net of income tax	1,074,878	1,094,103	19,225
Total Equity	**$ 4,219,715**	**$ 3,710,767**	**$ (508,948)**
Total liabilities and shareowners equity	**$ 52,932,085**	**$ 52,143,369**	**$ (788,716)**

The chart shown below summarizes the effect of the adjustments on the Company s income statement (only balances impacted by the Update are presented).

	For The Three Months Ended June 30, 2011		
	As originally reported	As adjusted	Effect of Change
	(Dollars In Thousands)		
Expenses:			
Amortization of deferred policy acquisition costs and value of business acquired	$ 79,688	$ 65,718	$ (13,970)
Other operating expenses	128,270	150,674	22,404
Total benefits and expenses	759,511	767,945	8,434
Income before income tax	143,273	134,839	(8,434)
Income tax (benefit) expense	49,909	46,920	(2,989)
Net income	**$ 93,364**	**$ 87,919**	**$ (5,445)**
Less: Net loss attributable to noncontrolling interests	296	296	
Net Income available to PLC s common shareowners	**$ 93,068**	**$ 87,623**	**$ (5,445)**
Net income available to PLC s common shareowners - basic	$ 1.08	$ 1.01	$ (0.07)
Net income available to PLC s common shareowners - diluted	$ 1.06	$ 1.00	$ (0.06)

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	For The Six Months Ended June 30, 2011		
	As originally reported	As adjusted (Dollars In Thousands)	Effect of Change
Expenses:			
Amortization of deferred policy acquisition costs and value of business acquired	$ 154,051	$ 130,944	$ (23,107)
Other operating expenses	250,523	295,445	44,922
Total benefits and expenses	1,492,496	1,514,311	21,815
Income before income tax	247,368	225,553	(21,815)
Income tax (benefit) expense	86,538	78,807	(7,731)
Net income	**$ 160,830**	**$ 146,746**	**$ (14,084)**
Less: Net loss attributable to noncontrolling interests	245	245	
Net Income available to PLC s common shareowners	**$ 160,585**	**$ 146,501**	**$ (14,084)**
Net income available to PLC s common shareowners - basic	$ 1.86	$ 1.69	$ (0.17)
Net income available to PLC s common shareowners - diluted	$ 1.83	$ 1.67	$ (0.16)

The chart shown below summarizes the effect of the adjustments on the Company s cash flow statement (only balances impacted by the Update are presented).

	For The Six Months Ended June 30, 2011		
	As originally reported	As adjusted (Dollars In Thousands)	Effect of Change
Cash flows from operating activities			
Net income	$ 160,830	$ 146,746	$ (14,084)
Amortization of deferred policy acquisition costs and value of business acquired	154,051	130,944	(23,107)
Capitalization of deferred policy acquisition costs	(252,788)	(213,321)	39,467
Deferred income tax	56,911	51,091	(5,820)
Other, net	18,586	22,130	3,544
Change to net cash (used in) provided by operating activities	$ 137,590	$ 137,590	$

Deferred policy acquisition costs

The balances and changes in DAC are as follows:

	As of	
	June 30, 2012	December 31, 2011
	(Dollars In Thousands)	
Balance, beginning of period	$ 2,219,901	$ 2,124,329
Capitalization of commissions, sales, and issue expenses	138,433	370,830
Amortization	(98,412)	(215,600)

Change in unrealized investment gains and losses		(25,817)		(59,658)
Balance, end of period	$	2,234,105	$	2,219,901

Value of business acquired

The balances and changes in VOBA are as follows:

	As of			
	June 30, 2012		December 31, 2011	
	(Dollars In Thousands)			
Balance, beginning of period	$	1,028,140	$	968,253
Acquisitions				137,418
Amortization		(32,177)		(66,163)
Change in unrealized gains and losses		(21,749)		(21,907)
Other				10,539
Balance, end of period	$	974,214	$	1,028,140

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6. GOODWILL

During the six months ended June 30, 2012, the Company decreased its goodwill balance by approximately $1.5 million. The decrease was due to adjustments in the Acquisitions segment related to tax benefits realized during 2012 on the portion of tax goodwill in excess of GAAP basis goodwill. As of June 30, 2012, the Company had an aggregate goodwill balance of $110.1 million.

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business to assess the recoverability of the capitalized acquisition goodwill. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company first determines through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If it is determined that it is more likely than not that impairment exists, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company s material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of the Company s reporting units are dependent on a number of significant assumptions. The Company s estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. Additionally, the discount rate used is based on the Company s judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows. As of December 31, 2011, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary. During the six months ended June 30, 2012, no events occurred which indicate an impairment was required or which would invalidate the previous results of the Company s impairment assessment.

7. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt Securities

Debt and subordinated debt securities are summarized as follows:

	As of	
	June 30, 2012	December 31, 2011
	(Dollars In Thousands)	
Debt (year of issue):		
Revolving Line Of Credit	$ 160,000	$ 170,000
4.30% Senior Notes (2003), due 2013	250,000	250,000
4.875% Senior Notes (2004), due 2014	150,000	150,000
6.40% Senior Notes (2007), due 2018	150,000	150,000
7.375% Senior Notes (2009), due 2019	400,000	400,000

8.00% Senior Notes (2009), due 2024, callable 2014		100,000		100,000
8.45% Senior Notes (2009), due 2039		300,000		300,000
Total Debt	$	1,510,000	$	1,520,000
Subordinated debt securities (year of issue):				
7.50% Subordinated Debentures (2001), due 2031, callable 2006	$		$	103,093
7.25% Subordinated Debentures (2002), due 2032, callable 2007				118,557
6.125% Subordinated Debentures (2004), due 2034, callable 2009		103,093		103,093
6.25% Subordinated Debentures (2012) due 2042, callable 2017		287,500		
7.25% Capital Securities (2006), due 2066, callable 2011		125,000		200,000
Total subordinated debt securities	$	515,593	$	524,743

Under a revolving line of credit arrangement that was in effect as of June 30, 2012 (the Credit Facility), the Company had the ability to borrow on an unsecured basis up to an aggregate principal amount of $500 million. The Company had the right in certain circumstances to request that the commitment under the Credit Facility be

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increased up to a maximum principal amount of $600 million. Balances outstanding under the Credit Facility accrued interest at a rate equal to (i) either the prime rate or the London Interbank Offered Rate (LIBOR), plus (ii) a spread based on the ratings of our senior unsecured long-term debt. The Credit Agreement provides that the Company was liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date on the Credit Facility was April 16, 2013. There was an outstanding balance of $160.0 million at an interest rate of LIBOR plus 0.40% under the Credit Facility as of June 30, 2012. The Company was not aware of any non-compliance with the financial debt covenants of the Credit Facility as of June 30, 2012.

Subsequent to the current period, on July 17, 2012 the Company replaced the Credit Facility with a new credit facility (2012 Credit Facility). Under the 2012 Credit Facility, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of $750 million. The Company has the right in certain circumstances to request that the commitment under the 2012 Credit Facility be increased up to a maximum principal amount of $1.0 billion. Balances outstanding under the 2012 Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company s senior unsecured long-term debt (Senior Debt), or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent s prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company s Senior Debt. The 2012 Credit Facility also provides for a facility fee at a rate that varies with the ratings of the Company s Senior Debt and that is calculated on the aggregate amount of commitments under the 2012 Credit Facility, whether used or unused. The maturity date on the 2012 Credit Facility is July 17, 2017.

The Company has a repurchase program in which it may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities. As of June 30, 2012, the fair value of securities pledged under the repurchase program was $222.0 million and the repurchase obligation of $200.0 million was included in the Company s consolidated condensed balance sheets. As of December 31, 2011, the Company did not have a balance for its repurchase program.

During 2012, the Company issued $287.5 million of its Subordinated Debentures due in 2042. These Subordinated Debentures were offered and sold pursuant to the Company s shelf registration statement on Form S-3. The Company used the net proceeds from the offering to call $103.1 million of Subordinated Debentures due 2031, $118.6 million of Subordinated Debentures due in 2032 and $75.0 million of Capital Securities due in 2066 at par value. The transaction resulted in an expense of $7.2 million related the write off of deferred issue costs associated with the called Debentures.

Non-Recourse Funding Obligations

Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by PLICO, had $575 million of outstanding non-recourse funding obligations as of June 30, 2012. These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of the Company s affiliates own a portion of these securities. As of June 30, 2012, securities related to $297.0 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to $278.0 million of the non-recourse funding obligations were held by affiliates.

Non-recourse funding obligations outstanding as of June 30, 2012, on a consolidated basis, are shown in the following table:

Issuer	Balance (Dollars In Thousands)	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
Golden Gate II Captive Insurance Company	$ 297,000	2052	1.17%

During the six months ended June 30, 2012, the Company repurchased $110.8 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $35.5 million pre-tax gain for the Company. During the six months ended June 30, 2011, the Company repurchased $94.1 million of its outstanding non-recourse funding obligations, at a discount, which resulted in a $30.7 million pre-tax gain.

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8. MORTGAGE LOANS

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of June 30, 2012, the Company s mortgage loan holdings were approximately $5.2 billion. The Company has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. The Company s underwriting procedures relative to its commercial loan portfolio are based, in the Company s view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history.

The Company s commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan s contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income.

Many of the mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called at their next call dates, approximately $43.6 million would become due for the remainder of 2012, $1.4 billion in 2013 through 2017, $792.2 million in 2018 through 2022, and $270.0 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of June 30, 2012 and December 31, 2011, approximately $860.4 million and $876.8 million, respectively, of the Company s mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income.

As of June 30, 2012, approximately $44.1 million, or 0.12%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. The Company s mortgage loan portfolio consists of two categories of loans: (1) those not subject to a pooling and servicing agreement and (2) those subject to a contractual pooling and servicing agreement.

As of June 30, 2012, $34.5 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the six month period ending June 30, 2012. In addition, the Company foreclosed on certain nonperforming loans and converted them to $2.2 million of real estate properties during the six months ended June 30, 2012.

As of June 30, 2012, $7.0 million of loans subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the six months ending June 30, 2012. In addition, the Company foreclosed on certain nonperforming loans and converted them to $0.5 million of real estate properties during the six months ended June 30, 2012.

As of June 30, 2012 and December 31, 2011, the Company had an allowance for mortgage loan credit losses of $8.8 million and $6.5 million, respectively. Due to the Company s loss experience, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and insurance. Through this monitoring process, the Company assesses the risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan s original effective interest rate, or the current estimated fair value

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of the loan s underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

A charge off is recorded by eliminating the allowance against the mortgage loan and recording the renegotiated loan or the collateral property related to the loan as investment real estate on the balance sheet, which is carried at the lower of the appraised fair value of the property or the unpaid principal balance of the loan, less estimated selling costs associated with the property:

	As of	
	June 30, 2012	December 31, 2011
	(Dollars In Thousands)	
Beginning balance	$ 6,475	$ 11,650
Charge offs	(2,486)	(16,278)
Recoveries	(122)	(2,471)
Provision	4,883	13,574
Ending balance	$ 8,750	$ 6,475

It is the Company s policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company s general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart as of June 30, 2012:

	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
		(Dollars In Thousands)		
Commercial mortgage loans	$ 22,061	$ 30,138	$ 11,315	$ 63,514
Number of delinquent commercial mortgage loans	6	4	4	14

The Company s commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to ninety days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart as of June 30, 2012 and December 31, 2011:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
			(Dollars In Thousands)			
2012						
Commercial mortgage loans:						

With no related allowance recorded	$	47,986	$	50,314	$		$	5,332	$	81	$	699
With an allowance recorded		26,134		26,135		8,750		6,534		202		283
2011												
Commercial mortgage loans:												
With no related allowance recorded	$	7,917	$	10,926	$		$	1,979	$	34	$	34
With an allowance recorded		15,521		15,521		6,475		5,174		117		181

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9. COMMITMENTS AND CONTINGENCIES

The Company has entered into indemnity agreements with each of its current directors that provide, among other things and subject to certain limitations, a contractual right to indemnification to the fullest extent permissible under the law. The Company has agreements with certain of its officers providing up to $10 million in indemnification. These obligations are in addition to the customary obligation to indemnify officers and directors contained in the Company s governance documents.

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. In addition, from time to time, companies may be asked to contribute amounts beyond prescribed limits. Most insurance guaranty fund laws provide that an assessment may be excused or deferred if it would threaten an insurer s own financial strength. The Company does not believe its insurance guaranty fund assessments will be materially different from amounts already provided for in the financial statements.

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. Publicly held companies in general and the financial services and insurance industries in particular are also sometimes the target of law enforcement and regulatory investigations relating to the numerous laws and regulations that govern such companies. Some companies have been the subject of law enforcement or regulatory actions or other actions resulting from such investigations. The Company, in the ordinary course of business, is involved in such matters.

The Company establishes liabilities for litigation and regulatory actions when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no liability is established. For such matters, the Company may provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. The Company reviews relevant information with respect to litigation and regulatory matters on a quarterly and annual basis and updates its established liabilities, disclosures and estimates of reasonably possible losses or range of loss based on such reviews.

Although the Company cannot predict the outcome of any litigation or regulatory action, the Company does not believe that any such outcome will have an impact, either individually or in the aggregate, on its financial condition or results of operations that differs materially from the Company s established liabilities. Given the inherent difficulty in predicting the outcome of such matters, however, it is possible that an adverse outcome in certain such matters could be material to the Company s financial condition or results of operations for any particular reporting period.

In the IRS audit that concluded during this quarter, the IRS proposed favorable and unfavorable adjustments to the Company s 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and is seeking resolution at the IRS Appeals Division. Although it cannot be certain, the Company believes that the Appeals process will conclude within the next 12 months. If the IRS prevails on every issue that it identified in this audit, and the Company does not litigate these issues, then the Company will make an income tax payment of approximately $26.6 million. However, this payment, if it was to occur, would not materially impact the Company or its effective tax rate.

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10. STOCK-BASED COMPENSATION

During the six months ended June 30, 2012, 306,100 performance shares with an estimated fair value of $8.6 million were awarded. The criteria for payment of the 2012 performance awards is based primarily on the Company s average operating return on average equity (ROE) over a three-year period. If the Company s ROE is below 10.0%, no award is earned. If the Company s ROE is at or above 11.2%, the award maximum is earned. Awards are paid in shares of the Company s common stock.

Restricted stock units are awarded to participants and include certain restrictions relating to vesting periods. The Company issued 180,050 restricted stock units for the six months ended June 30, 2012. These awards had a total fair value at grant date of $5.1 million. Approximately half of these restricted stock units vest in 2015, and the remainder vest in 2016. These awards have been recorded as equity-classified awards for the period ended June 30, 2012.

During the first quarter of 2012, the Company changed its intention to pay certain of its previously issued restricted stock units and performance share awards in cash. For that period, those portions of the awards were recorded as liability-classified awards and resulted in a reclassification of $3.6 million from additional paid-in-capital to other liabilities. During the second quarter of 2012, upon approval by the Company s shareholders to pay the aforementioned restricted stock units and performance share awards in the form of stock, the Company reclassified these awards to equity-classified awards. As of June 30, 2012, the $3.6 million was transferred back to additional paid-in-capital. These changes had an immaterial impact to current year net income.

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

	Weighted-Average Base Price per share		No. of SARs
Balance as of December 31, 2011	$	22.27	2,274,229
SARs granted			
SARs exercised / forfeited / expired		24.50	541,238
Balance as of June 30, 2012	$	21.58	1,732,991

There were no SARs issued for the six months ended June 30, 2012. 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.

11. EMPLOYEE BENEFIT PLANS

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars In Thousands)			
Service cost benefits earned during the period	$ 2,561	$ 2,194	$ 5,122	$ 4,388
Interest cost on projected benefit obligation	2,604	2,508	5,208	5,016
Expected return on plan assets	(2,673)	(2,512)	(5,346)	(5,024)
Amortization of prior service cost	(95)	(98)	(190)	(196)
Amortization of actuarial losses	2,175	1,388	4,350	2,776
Total benefit cost	$ 4,572	$ 3,480	$ 9,144	$ 6,960

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During the six months ended June 30, 2012, the Company contributed $7.3 million to its defined benefit pension plan for the 2011 plan year and $3.3 million for the 2012 plan year. In addition, during July of 2012, the Company contributed $3.3 million to the defined benefit pension plan for the 2012 plan year. The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage (AFTAP) of at least 80%.

In July of 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21), which includes pension funding stabilization provisions, was signed into law. These provisions establish an interest rate corridor which is designed to stabilize the segment rates used to determine funding requirements from the effects of interest rate volatility. The funding stabilization provisions of MAP-21 could impact the Company s defined benefit plan contributions. The Company is evaluating the impact this change will have on future contributions.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the six months ended June 30, 2012, was immaterial to the Company s financial statements.

12. EARNINGS PER SHARE

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

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars In Thousands, Except Per Share Amounts)			
Calculation of basic earnings per share:				
Net income available to PLC s common shareowners	$ 76,155	$ 87,623	$ 175,176	$ 146,501
Average shares issued and outstanding	80,731,368	85,434,462	81,090,440	85,556,430
Issuable under various deferred compensation plans	908,388	911,754	895,209	917,582
Weighted shares outstanding - basic	81,639,756	86,346,216	81,985,649	86,474,012
Per share:				
Net income available to PLC s common shareowners - basic	$ 0.93	$ 1.01	$ 2.14	$ 1.69
Calculation of diluted earnings per share:				
Net income available to PLC s common shareowners	$ 76,155	$ 87,623	$ 175,176	$ 146,501

Weighted shares outstanding - basic	81,639,756	86,346,216	81,985,649	86,474,012
Stock appreciation rights (SARs)(1)	458,245	495,197	457,880	497,313
Issuable under various other stock-based compensation plans	591,966	96,829	513,674	118,762
Restricted stock units	553,736	715,489	625,822	646,362
Weighted shares outstanding - diluted	83,243,703	87,653,731	83,583,025	87,736,449
Per share:				
Net income available to PLC s common shareowners - diluted	$ 0.91	$ 1.00	$ 2.10	$ 1.67

(1) Excludes 661,645 and 1,446,130 SARs as of June 30, 2012 and 2011, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the the SARs, such rights would be dilutive to the Company s earnings per share and will be included in the Company s calculation of the diluted average shares outstanding for applicable periods.

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13. INCOME TAXES

There was a $1.0 million increase in the balance of unrecognized tax benefits, where such benefits impacted earnings, for the six months ended June 30, 2012. The total amount of unrecognized tax benefits at June 30, 2012 and December 31, 2011that would, if recognized, affect the effective tax rate were $3.9 million and $2.9 million, respectively. During the six months ended June 30, 2012, there was a $27.1 million increase in total unrecognized tax benefits, of which $8.6 million occurred in the three months ended June 30, 2012. This increase related to items for which the ultimate deductibility is highly certain but for which there is uncertainty about the year in which such items should be deducted. Other than interest or penalties, a disallowance of the shorter deductibility period would not affect the effective tax rate. However, such disallowance would accelerate the payment date of cash to the taxing authority.

In the IRS audit that concluded during the quarter, the IRS proposed favorable and unfavorable adjustments to the Company s 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and is seeking resolution at the IRS Appeals Division. Although it cannot be certain, the Company believes that the Appeals process may conclude within the next 12 months. If the IRS prevails at Appeals, and the Company does not litigate these issues, then an acceleration of tax payments will occur. However, if these payments were to occur, they would not materially impact the Company or its effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	As of	
	June 30, 2012	December 31, 2011
	(Dollars In Thousands)	
Balance, beginning of period	$ 4,840	$ 13,181
Additions for tax positions of the current year		
Additions for tax positions of prior years	27,120	106
Reductions of tax positions of prior years:		
Changes in judgment		(8,447)
Settlements during the period		
Lapses of applicable statute of limitations		
Balance, end of period	$ 31,960	$ 4,840

The Company believes that it is possible that in the next 12 months approximately $17.1 million of these unrecognized tax benefits will be reduced due to the expected closure of the Appeals process. This reduction could occur because of the Company s successful negotiation of certain issues at Appeals, coupled with its unsuccessful negotiations on other issues. This possible scenario includes an assumption that the Company would pay the IRS-asserted deficiencies on issues that it loses at Appeals, rather than litigating such issues.

During 2011, there was an $8.4 million reduction in the amount of unrecognized tax benefits due to a change in the Company s judgment regarding the probability of realizing such unrecognized tax benefits. This was caused by new technical guidance and other developments which caused the Company to conclude that the full amount of the associated tax benefits was more than 50 percent likely to be realized. These issues were almost entirely related to timing issues. Therefore, aside from the cost of interest, this reduction did not cause a decrease in the Company s effective tax rate.

In general, the Company is not subject to adjustments to its current tax expense by any taxing authority for any tax year prior to 2003.

The Company used its estimate of its annual 2012 and 2011 income in computing its effective income tax rates for the three and six months ended June 30, 2012 and 2011. The effective tax rate for the three and six months ended June 30, 2012 was 29.3% and 32.2%, respectively, and 34.8% and 34.9% for the three and six months ended June 30, 2011, respectively. During the quarter, as a result of the IRS audit, the Company changed its estimate regarding an issue whose tax effect has affected, and will continue to affect, the Company s effective tax rate. This change in estimate contributed $3.0 million to a $4.6 million benefit that was part of the Company s second quarter 2012 income tax provision in its Statements of Income. The remainder of this benefit related to a change in estimate regarding accrued interest on uncertain tax benefits. Without this benefit, this quarter s effective tax rate would have been 33.6% and this year s six-month period s effective tax rate would have been 34.0%.

Based on the Company s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income

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to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of June 30, 2012.

In the first quarter of 2012, the Company retrospectively adopted ASU No. 2010-26. The Company s retrospective adoption of this Update resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers. The retrospective adoption of this Update reduced the opening balance of the Company s shareowners equity, the deferred acquisition costs asset balance, and the deferred income tax liability balance as of the adoption date. The Company had an adjustment of approximately $279.8 million to its deferred income tax liability balance and a $7.7 million adjustment to the Company s income tax expense.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

In the first quarter of 2012, the Company adopted ASU No. 2011-04 Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update resulted in modification of certain disclosures regarding fair value measurements, but did not result in a material change to the Company s fair value methodology or measurements and had no impact to the Company s financial position or results of operations.

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

Financial assets and liabilities recorded at fair value on the consolidated condensed balance sheets are categorized as follows:

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

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

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

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

c) Inputs other than quoted market prices that are observable

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

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

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The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 2,127,240	$ 4	$ 2,127,244
Commercial mortgage-backed securities		745,831		745,831
Other asset-backed securities		337,103	584,641	921,744
U.S. government-related securities	784,615	534,115		1,318,730
States, municipals, and political subdivisions		1,391,811	4,340	1,396,151
Other government-related securities		88,156	20,020	108,176
Corporate bonds	204	19,036,616	172,181	19,209,001
Total fixed maturity securities - available-for-sale	784,819	24,260,872	781,186	25,826,877
Fixed maturity securities - trading				
Residential mortgage-backed securities		374,068		374,068
Commercial mortgage-backed securities		192,125		192,125
Other asset-backed securities		69,543	65,059	134,602
U.S. government-related securities	310,197	252		310,449
States, municipals, and political subdivisions		259,486		259,486
Other government-related securities		58,125		58,125
Corporate bonds		1,694,650	114	1,694,764
Total fixed maturity securities - trading	310,197	2,648,249	65,173	3,023,619
Total fixed maturity securities	1,095,016	26,909,121	846,359	28,850,496
Equity securities	254,922	21,930	73,651	350,503
Other long-term investments (1)	23,615	56,744	18,415	98,774
Short-term investments	89,495			89,495
Total investments	1,463,048	26,987,795	938,425	29,389,268
Cash	219,877			219,877
Other assets	7,659			7,659
Assets related to separate accounts				
Variable annuity	7,949,926			7,949,926
Variable universal life	530,630			530,630
Total assets measured at fair value on a recurring basis	$ 10,171,140	$ 26,987,795	$ 938,425	$ 38,097,360
Liabilities:				
Annuity account balances (2)	$	$	$ 134,597	$ 134,597
Other liabilities (1)	17,424	15,817	516,587	549,828
Total liabilities measured at fair value on a recurring basis	$ 17,424	$ 15,817	$ 651,184	$ 684,425

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 2,342,123	$ 7	$ 2,342,130
Commercial mortgage-backed securities		551,559		551,559
Other asset-backed securities		298,216	614,813	913,029
U.S. government-related securities	664,506	536,173	15,000	1,215,679
States, municipals, and political subdivisions		1,327,713	69	1,327,782
Other government-related securities		93,017		93,017
Corporate bonds	204	18,460,480	119,601	18,580,285
Total fixed maturity securities - available-for-sale	664,710	23,609,281	749,490	25,023,481
Fixed maturity securities - trading				
Residential mortgage-backed securities		313,963		313,963
Commercial mortgage-backed securities		190,247		190,247
Other asset-backed securities		29,585	28,343	57,928
U.S. government-related securities	555,601	255		555,856
States, municipals, and political subdivisions		229,032		229,032
Other government-related securities		44,845		44,845
Corporate bonds		1,568,094		1,568,094
Total fixed maturity securities - trading	555,601	2,376,021	28,343	2,959,965
Total fixed maturity securities	1,220,311	25,985,302	777,833	27,983,446
Equity securities	243,336	11,310	80,586	335,232
Other long-term investments (1)	27,757	7,785	12,703	48,245
Short-term investments	101,489			101,489
Total investments	1,592,893	26,004,397	871,122	28,468,412
Cash	267,298			267,298
Other assets	6,960			6,960
Assets related to separate accounts				
Variable annuity	6,741,959			6,741,959
Variable universal life	502,617			502,617
Total assets measured at fair value on a recurring basis	$ 9,111,727	$ 26,004,397	$ 871,122	$ 35,987,246
Liabilities:				
Annuity account balances (2)	$	$	$ 136,462	$ 136,462
Other liabilities (1)	2,727	15,370	437,613	455,710
Total liabilities measured at fair value on a recurring basis	$ 2,727	$ 15,370	$ 574,075	$ 592,172

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

Determination of fair values

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

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

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the six months ended June 30, 2012.

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

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or ABS). As of June 30, 2012, the Company held $3.8 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity

of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

After reviewing these characteristics of the ABS, the third party pricing service and brokers use certain inputs to determine the value of the security. For ABS classified as Level 2, the valuation would consist of predominantly market observable inputs such as, but not limited to: 1) monthly principal and interest payments on

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the underlying assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and 6) discount margin.

As of June 30, 2012, the Company held $649.7 million of Level 3 ABS, which included $65.1 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

The fair value calculation of available-for-sale ABSs classified as Level 3 had, but were not limited to, the following inputs:

Investment grade credit rating	100.0%
Weighted-average yield	1.1%
Par value	$669.8 million
Weighted-average life	12.0 years

Corporate bonds, U.S. Government-related securities, States, municipals, and political subdivisions, and Other government related securities

As of June 30, 2012, the Company classified approximately $23.1 billion of corporate bonds, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 bonds and securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the bonds and securities are considered to be the primary relevant inputs to the valuation: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings.

The brokers and third party pricing service utilize valuation models that consist of a hybrid income and market approach to valuation. The pricing models utilize the following inputs: 1) principal and interest payments, 2) treasury yield curve, 3) credit spreads from new issue and secondary trading markets, 4) dealer quotes with adjustments for issues with early redemption features, 5) liquidity premiums present on private placements, and 6) discount margins from dealers in the new issue market.

As of June 30, 2012, the Company classified approximately $196.7 million of bonds and securities as Level 3 valuations. The fair value of the Level 3 bonds and securities are derived from an internal pricing model that utilizes a hybrid market/income approach to valuation. The Company reviews the following characteristics of the bonds and securities to determine the relevant inputs to use in the pricing model: 1) coupon rate, 2) years to maturity, 3) seniority, 4) embedded options, 5) trading volume, and 6) credit ratings.

Level 3 bonds and securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard

pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spreads, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

The fair value calculation of bonds and securities classified as Level 3 had, but were not limited to, the following weighted-average inputs:

Investment grade credit rating	66.7%
Weighted-average yield	4.4%
Weighted-average coupon	5.4%
Par value	$265.5 million
Weighted-average stated maturity	6.1 years

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Equities

As of June 30, 2012, the Company held approximately $95.6 million of equity securities classified as Level 2 and Level 3. Of this total, $64.6 million represents Federal Home Loan Bank (FHLB) stock. The Company believes that the cost of the FHLB stock approximates fair value. The remainder of these equity securities is primarily made up of holdings we have obtained through bankruptcy proceedings or debt restructurings.

Other long-term investments and Other liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 15, *Derivative Financial Instruments* for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of June 30, 2012, 96.2% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

Derivative instruments classified as Level 1 generally include futures, credit default swaps, and puts, which are traded on active exchange markets.

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

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

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

The guaranteed minimum withdrawal benefits (GMWB) embedded derivative is carried at fair value in other long-term investments and other liabilities on the Company s consolidated balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments . Refer to Note 15, *Derivative Financial Instruments* for more information related to GMWB embedded derivative gains and losses. The fair value of the GMWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity

volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality that is consistent with 58% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company s non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as trading securities ; therefore changes in their fair value are also reported in earnings. The fair value of the embedded derivative is the difference between the policy liabilities (net of policy loans) of $2.7 billion and the fair value of the trading securities of $3.1 billion. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the

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related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Annuity account balances

The equity indexed annuity (EIA) model calculates the present value of future benefit cash flows less the projected future profits to quantify the net liability that is held as a reserve. This calculation is done using multiple risk neutral stochastic equity scenarios. The cash flows are discounted using LIBOR plus a credit spread. Best estimate assumptions are used for partial withdrawals, lapses, expenses and asset earned rate with a risk margin applied to each. These assumptions are reviewed at least annually as a part of the formal unlocking process. If an event were to occur within a quarter that would make the assumptions unreasonable, the assumptions would be reviewed within the quarter.

The discount rate for the equity indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for June 30, 2012, ranged from a one month rate of 0.96%, a 5 year rate of 2.75%, and a 30 year rate of 4.44%. A credit spread component is also included in the calculation to accommodate non-performance risk.

Separate Accounts

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

Valuation of Level 3 Financial Instruments

The following table presents the valuation method for material financial instruments included in Level 3, as well as the unobservable inputs used in the valuation of those financial instruments:

		Fair Value As of June 30, 2012 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
Other asset-backed securities	$	584,641	Discounted cash flow	Liquidity premium Paydown rate	0.55% - 1.67% (1.15%) 7.22% - 12.46% (9.52%)
Other government-related securities		20,020	Discounted cash flow	Spread over treasury	0.05%
Corporate bonds		107,254	Discounted cash flow	Spread over treasury	0.20% - 4.35% (0.92%)
Liabilities:					
Embedded derivatives - GMWB(1)	$	182,262	Actuarial cash flow model	Mortality Lapse	58% of 1994 GMDB table 0% - 16%, depending on product/duration/fundedness of guarantee

			Utilization	92% - 100%
			Nonperformance risk	0.71% - 1.93%
Annuity account balances(2)	134,597	Actuarial cash flow model	Asset earned rate	5.89%
			Expenses	$78 - $93 per policy
			Withdrawal rate	2.20%
			Mortality	65% of 1994 GMDB table
			Lapse	2.2% - 55.0%, depending on duration/surrender charge period
			Return on assets	1.50% - 1.85% depending on surrender charge period
			Nonperformance risk	0.71% - 1.93%

(1) The fair value for the GMWB embedded derivative is presented as a net liability. Excludes modified coinsurance arrangements.

(2) Represents liabilities related to equity indexed annuities.

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The chart above excludes Level 3 financial instruments that are valued using broker quotes and those which book value approximates fair value.

The valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company which resulted in $70.3 million of financial instruments being classified as Level 3 as of June 30, 2012. Of the $70.3 million, $65.1 million are other asset backed securities and $5.2 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of June 30, 2012, the Company held $137.8 million of financial instruments where book value approximates fair value. Of the $137.8 million, $68.5 million represents equity securities, which are predominantly FHLB stock, and $65.0 million of corporate bonds and $4.3 million of other fixed maturity securities. The $65.0 million of corporate bonds consists of a $40 million surplus note that PLICO acquired as part of the reinsurance transaction with Liberty Life and $25.0 million of other corporate bonds.

The asset-backed securities classified as Level 3 are predominantly ARS. A change in the paydown rate (the projected annual rate of principal reduction) of the ARS can significantly impact the fair value of these securities. A decrease in the paydown rate would increase the projected weighted average life of the ARS and increase the sensitivity of the ARS fair value to changes in interest rates. An increase in the liquidity premium would result in a decrease in the fair value of the securities, while a decrease in the liquidity premium would increase the fair value of these securities.

The fair value of corporate bonds classified as Level 3 is sensitive to changes in the interest rate spread over the corresponding U.S. Treasury rate. This spread represents a risk premium that is impacted by company specific and market factors. An increase in the spread can be caused by a perceived increase in credit risk of a specific issuer and/or an increase in the overall market risk premium associated with similar securities. The fair values of corporate bonds are sensitive to changes in spread. When holding the treasury rate constant, the fair value of corporate bonds increases when spreads decrease, and increase when spreads decrease.

The GMWB liability is sensitive to changes in the discount rate which includes the Company s nonperformance risk, volatility, lapse, and mortality assumptions. The volatility assumption is an observable input as it is based on market inputs. The Company s nonperformance risk, lapse, and mortality are unobservable. An increase in the three unobservable assumptions would result in a decrease in the liability and conversely, if there is a decrease in the assumptions the liability would increase. The liability is also dependent on the assumed policyholder utilization of the GMWB where an increase in assumed utilization would result in an increase in the liability and conversely, if there is a decrease in the assumption, the liability would decrease.

The fair value of the EIA account balance liability is predominantly impacted by observable inputs such as discount rates and equity returns. However, the fair value of the EIA account balance liability is sensitive to the asset earned rate and required return on assets. The value of the liability increases with an increase in required return on assets and decreases with an increase in the asset earned rate and conversely, the value of the liability decreases with a decrease in required return on assets and an increase in the asset earned rate.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended June 30, 2012, for which the Company has used significant unobservable inputs (Level 3):

Assets:													
Residential mortgage-backed securities	$ 4	$	$	$	$	$	$	$	$	$	$	$ 4	$
Other asset-backed securities	587,613		4,026		(6,969)						(29)	584,641	
States, municipals, and political subdivisions	4,344						(4)					4,340	
Corporate bonds	137,976		1,666		(683)		(1,956)			35,058	120	172,181	
Fixed maturity securities - trading													
Commercial mortgage-backed securities													
U.S. government-related securities													
Other government-related securities													
Total fixed maturity securities - trading	54,962	32		(588)		13,342	(3,266)			113	578	65,173	(555)

Equity securities	81,224		25		(948)						(6,650)	73,651	
Short-term investments													
Total assets measured at fair value on a recurring basis	$ 911,905	$ 32	$ 5,735	$ (7,949)	$ (8,600)	$ 13,342	$ (5,226)	$	$	$ 35,171	$ (5,985)	$ 938,425	$ (7,916)
Liabilities:													
Other liabilities (1)	389,812	8,748		135,523								516,587	(126,775)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

For the three months ended June 30, 2012, $35.2 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of June 30, 2012. All transfers are recognized as of the end of the period.

For the three months ended June 30, 2012, there were no transfers out of Level 3.

For the three months ended June 30, 2012, there were no transfers from Level 2 to Level 1.

For the three months ended June 30, 2012, there were no transfers out of Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended June 30, 2011, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains Included in Earnings	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Total Realized and Unrealized Losses Included in Earnings	Total Realized and Unrealized Losses Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	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													
Residential mortgage-backed securities	$ 19	$	$	$	$	$	$ (12)	$	$	$	$	$ 7	$
Commercial mortgage-backed securities													
Other asset-backed securities	639,407	1,786	1,751	(2,133)	(3,050)	109,148	(109,148)				(15)	637,746	
U.S. government-related securities	15,084				(87)						3	15,000	
States, municipals, and political subdivisions	78						(4)					74	
Other government-related securities													
Corporate bonds	64,907		1,471		(287)	40,000	(764)			12,698		118,025	
Total fixed maturity securities - available-for-sale	719,495	1,786	3,222	(2,133)	(3,424)	149,148	(109,928)			12,698	(12)	770,852	
Fixed maturity securities - trading													
Residential mortgage-backed securities													
Commercial mortgage-backed securities													
Other asset-backed securities	41,713	329		(457)		3,792	(5,060)				776	41,093	(128)
U.S. government-related securities	3,384	130									(2)	3,512	130
States, municipals and political subdivisions													
Other government-related securities													
Corporate bonds										42,041		42,041	374
Total fixed maturity securities - trading	45,097	459		(457)		3,792	(5,060)			42,041	774	86,646	376
Total fixed maturity securities	764,592	2,245	3,222	(2,590)	(3,424)	152,940	(114,988)			54,739	762	857,498	376

Equity securities	79,544	49			(745)	1,962	(49)			21		80,782	
Other long-term investments (1)	26,072	1,781		(322)								27,531	1,459
Short-term investments													
Total investments	870,208	4,075	3,222	(2,912)	(4,169)	154,902	(115,037)			54,760	762	965,811	1,835
Total assets measured at fair value on a recurring basis	$ 870,208	$ 4,075	$ 3,222	$ (2,912)	$ (4,169)	$ 154,902	$ (115,037)	$	$	$ 54,760	$ 762	$ 965,811	$ 1,835
Liabilities:													
Annuity account balances (2)	$ 143,020	$	$	$ 2,104	$	$	$	$ 135	$ 2,789	$	$	$ 142,470	$
Other liabilities (1)	178,386	960		38,101			1,868					213,659	(37,141)
Total liabilities measured at fair value on a recurring basis	$ 321,406	$ 960	$	$ 40,205	$	$	$ 1,868	$ 135	$ 2,789	$	$	$ 356,129	$ (37,141)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the six months ended June 30, 2012, for which the Company has used significant unobservable inputs (Level 3):

Assets:													
Residential mortgage-backed securities	$ 7	$	$	$	$	$	$ (3)	$	$	$	$	$ 4	$
Other asset-backed securities	614,813	294	4,519		(20,898)		(13,850)				(237)	584,641	
States, municipals, and political subdivisions	69					4,275	(4)					4,340	
Corporate bonds	119,601		1,849		(1,910)	4	(2,095)			54,612	120	172,181	
Fixed maturity securities - trading													
Commercial mortgage-backed securities													
U.S. government-related securities													
Other government-related securities													
Total fixed maturity securities - trading	28,343	478		(757)		41,048	(5,074)			113	1,022	65,173	(278)

Equity securities	80,586		660		(949)	4				1	(6,650)	73,652	
Short-term investments													
Total assets measured at fair value on a recurring basis	$ 871,122	$ 13,845	$ 7,046	$ (8,118)	$ (23,774)	$ 65,354	$ (36,026)	$	$	$ 54,726	$ (5,749)	$ 938,426	$ 5,434
Liabilities:													
Other liabilities (1)	437,613	56,549		135,523								516,587	(78,974)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

For the six months ended June 30, 2012, $54.7 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of June 30, 2012. All transfers are recognized as of the end of the period.

For the six months ended June 30, 2012, there were no transfers out of Level 3.

For the six months ended June 30, 2012, there were no transfers from Level 2 to Level 1.

For the six months ended June 30, 2012, there were no transfers out of Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the six months ended June 30, 2011, for which the Company has used significant unobservable inputs (Level 3):

Assets:													
Residential mortgage-backed securities	$ 20	$	$ 12	$ (4)	$	$	$ (12)	$	$	$ (9)	$	$ 7	$
Other asset-backed securities	641,129	1,786	2,158	(2,133)	(5,146)	118,598	(118,598)				(48)	637,746	
States, municipals, and political subdivisions	78						(4)					74	
Corporate bonds	65,032		1,485		(956)	40,000	(2,121)			14,585		118,025	
Fixed maturity securities - trading													
Commercial mortgage-backed securities													
U.S. government-related securities	3,442	130		(56)							(4)	3,512	74
Other government-related securities													
Total fixed maturity securities - trading	63,367	1,282		(1,369)		3,792	(23,952)			42,041	1,485	86,646	519

Equity securities	77,098	49	445		(744)	3,962	(49)			21		80,782	
Short-term investments													
Total assets measured at fair value on a recurring basis	$ 906,799	$ 6,312	$ 4,247	$ (4,235)	$ (6,961)	$ 166,352	$ (144,838)	$	$	$ 36,692	$ 1,443	$ 965,811	$ 2,985
Liabilities:													
Other liabilities (1)	190,529	20,308		45,306			1,868					213,659	(24,998)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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

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

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

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

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Estimated Fair Value of Financial Instruments

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

		As of			
		June 30, 2012		December 31, 2011	
	Fair Value Level	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
		(Dollars In Thousands)			
Assets:					
Mortgage loans on real estate	3	$ 5,203,999	$ 6,116,756	$ 5,353,481	$ 6,251,902
Policy loans	3	870,775	870,775	879,819	879,819
Liabilities:					
Stable value product account balances	3	$ 2,676,312	$ 2,716,435	$ 2,769,510	$ 2,855,614
Annuity account balances	3	10,774,666	10,467,208	10,946,848	10,767,892
Mortgage loan backed certificates	3			19,755	19,893
Debt:					
Bank borrowings	3	$ 160,000	$ 160,000	$ 170,000	$ 170,000
Senior Notes	2	1,350,000	1,528,982	1,350,000	1,494,346
Subordinated debt securities	2	515,593	525,938	524,743	525,483
Non-recourse funding obligations	3	297,000	182,210	407,800	217,529

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

Fair Value Measurements

Mortgage loans on real estate

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

Policy loans

The Company believes the fair value of policy loans approximates book value. Policy loans are funds provided to policy holders in return for a claim on the policy. The funds provided are limited to the cash surrender value of the underlying policy. The nature of policy loans is to have a

negligible default risk as the loans are fully collateralized by the value of the policy. Policy loans do not have a stated maturity and the balances and accrued interest are repaid either by the policyholder or with proceeds from the policy. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value.

Stable value product and Annuity account balances

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

Debt

Bank borrowings

The Company believes the carrying value of its bank borrowings approximates fair value.

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Non-recourse funding obligations

As of June 30, 2012, the Company estimated the fair value of its non-recourse funding obligations using internal discounted cash flow models. The discount rates used in the model were based on a current market yield for similar financial instruments.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

The Company utilizes a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to certain risks, including but not limited to, interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk. These strategies are developed through the Company s analysis of data from financial simulation models and other internal and industry sources, and are then incorporated into the Company s risk management program.

Derivative instruments expose the Company to credit and market risk and could result in material changes from period to period. The Company attempts to minimize its credit risk by entering into transactions with highly rated counterparties. The Company manages the market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. The Company monitors its use of derivatives in connection with its overall asset/liability management programs and risk management strategies. In addition, all derivative programs are monitored by our risk management department.

Derivatives Related to Interest Rate Risk Management

Derivative instruments that are used as part of the Company s interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate swaptions. The Company s inflation risk management strategy involves the use of swaps that requires the Company to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index (CPI).

Derivatives Related to Risk Mitigation of Variable Annuity Contracts

The Company may use the following types of derivative contracts to mitigate its exposure to certain guaranteed benefits related to variable annuity contracts:

- Foreign Currency Futures

- Variance Swaps
- Interest Rate Futures
- Equity Options
- Equity Futures
- Credit Derivatives
- Interest Rate Swaps
- Interest Rate Swaptions
- Volatility Futures

The Company has in certain periods, sold credit protection under single name credit default swaps and credit default swap indices for which it receives a premium to insure credit risk. Such credit derivatives are a part of the Company s program to mitigate risks related to certain minimum guaranteed benefits of variable annuity contracts and are designed to offset some portion of the Company s nonperformance risk. The Company will only make a payment in the event there is a credit event. A credit event payment will typically be equal to the notional value of the swap contract less an auction-determined recovery rate, to the percentage extent described. A credit event is generally defined to include material default, bankruptcy, or debt restructuring. The Company s maximum amount at risk, assuming the value of all referenced credit obligations is zero, would equal the notional value of the credit default swaps. As of June 30, 2012 and December 31, 2011, the Company did not have any open credit default swaps.

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Accounting for Derivative Instruments

The Company records its derivative financial instruments in the consolidated balance sheet in other long-term investments and other liabilities in accordance with GAAP, which requires that all derivative instruments be recognized in the balance sheet at fair value. The change in the fair value of derivative financial instruments is reported either in the statement of income or in other comprehensive income (loss), depending upon whether it qualified for and also has been properly identified as being part of a hedging relationship, and also on the type of hedging relationship that exists.

For a derivative financial instrument to be accounted for as an accounting hedge, it must be identified and documented as such on the date of designation. For cash flow hedges, the effective portion of their realized gain or loss is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction impacts earnings. Any remaining gain or loss, the ineffective portion, is recognized in current earnings. For fair value hedge derivatives, their gain or loss as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Effectiveness of the Company s hedge relationships is assessed on a quarterly basis.

The Company reports changes in fair values of derivatives that are not part of a qualifying hedge relationship through earnings in the period of change. Changes in the fair value of derivatives that are recognized in current earnings are reported in Realized investment gains (losses) - Derivative financial instruments .

Derivative Instruments Designated and Qualifying as Hedging Instruments

Cash-Flow Hedges

- In connection with the issuance of inflation-adjusted funding agreements, the Company has entered into swaps to essentially convert the floating CPI-linked interest rate on these agreements to a fixed rate. The Company pays a fixed rate on the swap and receives a floating rate primarily determined by the period s change in the CPI. The amounts that are received on the swaps are almost equal to the amounts that are paid on the agreements.

- The Company has entered into an interest rate swap to convert LIBOR-based floating rate interest payments on a certain funding agreement to fixed rate interest payments. This structure is basically the same as that described regarding the CPI-based agreements and swaps.

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

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

Derivatives related to variable annuity contracts

- The Company uses equity, interest rate, currency, and volatility futures to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products. In general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility. The equity futures resulted in net pre-tax losses of $0.2 million and $25.3 million and interest rate futures resulted in pre-tax gains of $69.2 million and $35.8 million for the three and six months ended June 30, 2012, respectively. The equity futures resulted in net pre-tax losses of $1.5 million and $19.3 million and interest rate futures resulted in pre-tax gains of $9.0 million and $3.4 million for the three and six months ended June 30, 2011, respectively. Currency futures resulted in net pre-tax gains of $1.8 million and $0.8 million and volatility futures resulted in net pre-tax gains of $0.3 million and net pre-tax losses of $0.1 million for the three and six months ended June 30, 2012, respectively. The currency futures resulted in net pre-tax losses of $0.2 million for the three and six months ended June 30, 2011. No volatility future positions were held during the three and six months ended June 30, 2011.

- The Company uses equity options and volatility swaps to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products. In general, the cost of such benefits varies with the level of equity markets and overall volatility. The equity options resulted in net pre-tax gains of $3.2 million and net pre-tax losses of $20.7 million, and the

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volatility swaps resulted in net pre-tax gains of $1.1 million and net pre-tax losses of $0.8 million for the three and six months ended June 30, 2012, respectively. The equity options resulted in net pre-tax losses of $4.0 million and $7.3 million, and the volatility swaps resulted in net pre-tax losses of $0.9 million and $3.7 million for the three and six months ended June 30, 2011, respectively.

- The Company uses interest rate swaps and interest rate swaptions to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products. The interest rate swaps resulted in net pre-tax gains of $6.0 million and $3.8 million and the interest rate swaptions resulted in net pre-tax gains of $8.8 million and $5.3 million for the three and six months ended June 30, 2012, respectively. Such positions were not held during the three and six months ended June 30, 2011.

- The Company entered into credit default swaps to partially mitigate the Company s non-performance risk related to certain guaranteed minimum withdrawal benefits within our variable annuity products. The Company reported net pre-tax gains of $0.9 million for the three and six months ended June 30, 2011. As of June 30, 2012, no credit default swaps were outstanding.

- The Company markets certain variable annuity products with a GMWB rider. The GMWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract. The Company recognized pre-tax losses of $85.5 million and $35.3 million for the three and six months ended June 30, 2012, respectively, and a pre-tax loss of $5.6 million and pre-tax gains of $2.6 million for the three and six months ended June 30, 2011, respectively, related to these embedded derivatives.

Other Derivatives

- The Company previously entered into credit default swaps to enhance the return on its investment portfolio. As of June 30, 2012, no credit default swaps were outstanding. The Company reported an immaterial gain for the three months ended June 30, 2011 and net pre-tax losses of $0.2 million for the six months ended June 30, 2011, related to the change in fair value and premium income earned on such credit default swaps.

- The Company uses certain interest rate swaps to mitigate the price volatility of fixed maturities. These positions resulted in net pre-tax losses of $2.9 million and $0.9 million for the three and six months ended June 30, 2012, respectively. For the three and six months ended June 30, 2011, these positions resulted in net pre-tax losses of $3.0 million and $2.5 million, respectively.

- The Company purchased interest rate caps during 2011 to mitigate risks associated with the Company s LIBOR exposure and the potential impact of European financial market distress. These caps resulted in net pre-tax losses of $0.4 million and $2.5 million for the three and six months ended June 30, 2012, respectively. Such positions were not held during the six months ended June 30, 2011.

- The Company uses various swaps and other types of derivatives to manage risk related to other exposures. The Company recognized pre-tax losses of $0.9 million and $0.2 million for the three and six months ended June 30, 2012, respectively, and a pre-tax loss of $0.6 million

and a pre-tax gain of $0.1 million for the three and six months ended June 30, 2011.

- The Company is involved in various modified coinsurance and funds withheld arrangements which contain embedded derivatives. Changes in the fair value of such embedded derivatives are recorded in current period earnings. The investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had mark-to-market changes which substantially offset the gains or losses on these embedded derivatives. The Company recognized pre-tax losses of $48.7 million and $38.0 million for the three and six months ended June 30, 2012, respectively, and pre-tax losses of $29.2 million and $21.4 million for the three and six months ended June 30, 2011, respectively.

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

	As of June 30, 2012		As of December 31, 2011	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Thousands)			
Other long-term investments				
Cash flow hedges:				
Inflation	$	$	$ 7,068	$ 1
Derivatives not designated as hedging instruments:				
Interest rate swaps	225,000	5,797	125,000	5,118
Volatility swaps	600	609		
Embedded derivative - Modco reinsurance treaties	30,531	1,787	30,001	2,038
Embedded derivative - GMWB	1,099,744	16,628	826,790	10,665
Interest rate futures	769,749	7,065	615,445	6,393
Equity futures			49,631	837
Currency futures	14,425	323	57,912	976
Interest rate caps	3,000,000	152	3,000,000	2,666
Equity options	471,276	47,330	440,000	19,396
Interest rate swaptions	400,000	18,942		
Other	224	141	224	155
	$ 6,011,549	$ 98,774	$ 5,152,071	$ 48,245
Other liabilities				
Cash flow hedges:				
Inflation	$ 234,764	$ 8,115	$ 244,399	$ 8,863
Interest rate	75,000	1,810	75,000	3,443
Derivatives not designated as hedging instruments:				
Interest rate swaps	150,000	4,462	25,000	3,064
Volatility swaps	675	1,430		
Embedded derivative - Modco reinsurance treaties	2,689,788	317,520	2,761,686	279,799
Embedded derivative - GMWB	4,489,658	199,067	3,741,688	157,813
Interest rate futures	358,884	625	270,019	1,148
Equity futures	296,141	14,964	189,765	1,454
Currency futures	111,326	1,835	14,348	126
	$ 8,406,236	$ 549,828	$ 7,321,905	$ 455,710

Gain (Loss) on Derivatives in Cash Flow Hedging Relationship

	For The Three Months Ended June 30, 2012			For The Six Months Ended June 30, 2012		
	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income (loss)	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income (loss)
	(Dollars In Thousands)					
Gain (loss) recognized in other comprehensive income (loss)						
(effective portion):						
Interest rate	$	$	$ (2)	$	$	$ (75)
Inflation			(7,939)			985
Gain (loss) reclassified from accumulated other comprehensive						

income (loss) into income (effective portion):						
Interest rate	$	$ (858)	$	$	$ (1,712)	$
Inflation		(113)			67	
Gain (loss) recognized in income (ineffective portion):						
Inflation	$ (870)	$	$	$ (224)	$	$

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Gain (Loss) on Derivatives in Cash Flow Hedging Relationship

	For The Three Months Ended June 30, 2011			For The Six Months Ended June 30, 2011		
	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income (loss)	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income (loss)
	(Dollars In Thousands)					
Gain (loss) recognized in other comprehensive income (loss) (effective portion):						
Interest rate	$	$	$ (248)	$	$	$ (343)
Inflation			(5,907)			2,184
Gain (loss) reclassified from accumulated other comprehensive income (loss) into income (effective portion):						
Interest rate	$	$ (895)	$	$	$ (1,778)	$
Inflation		(250)			(1,328)	
Gain (loss) recognized in income (ineffective portion):						
Inflation	$ (617)	$	$	$ 28	$	$

Based on the expected cash flows of the underlying hedged items, the Company expects to reclassify $3.6 million of its derivative financial instruments out of accumulated other comprehensive income (loss) into earnings during the next twelve months.

Realized investment gains (losses) - derivative financial instruments

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars In Thousands)			
Derivatives related to variable annuity contracts:				
Interest rate futures - VA	$ 69,196	$ 9,039	$ 35,790	$ 3,369
Equity futures - VA	(220)	(1,503)	(25,319)	(19,346)
Currency futures - VA	1,764	(199)	780	(199)
Volatility futures - VA	343		(132)	
Volatility swaps - VA	1,063	(917)	(821)	(3,734)
Equity options - VA	3,153	(3,982)	(20,719)	(7,259)
Interest rate swaptions - VA	8,831		5,312	
Interest rate swaps - VA	5,954		3,826	
Credit default swaps - VA		915		915
Embedded derivative - GMWB	(85,456)	(5,549)	(35,289)	2,575
Total derivatives related to variable annuity contracts	4,628	(2,196)	(36,572)	(23,679)
Embedded derivative - Modco reinsurance treaties	(48,679)	(29,214)	(37,973)	(21,372)
Interest rate swaps	(2,916)	(2,989)	(879)	(2,457)
Interest rate caps	(351)		(2,515)	
Credit default swaps		2		(221)

Other derivatives		(950)		(596)		(238)		50
Total realized gains (losses) - derivatives	$	(48,268)	$	(34,993)	$	(78,177)	$	(47,679)

From time to time, the Company is required to post and obligated to return collateral related to derivative transactions. As of June 30, 2012, the Company had posted cash and securities (at fair value) as collateral of approximately $20.2 million and $55.0 million, respectively. As of June 30, 2012, the Company received $12.0 million of cash as collateral. The Company does not net the collateral posted or received with the fair value of the derivative financial instruments for reporting purposes.

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Realized investment gains (losses) - all other investments

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars In Thousands)			
Modco trading portfolio(1)	$ 56,063	$ 33,603	$ 74,162	$ 27,954

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

16. OPERATING SEGMENTS

The Company has several operating segments each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company periodically evaluates its operating segments, as prescribed in the ASC Segment Reporting Topic, and makes adjustments to its segment reporting as needed. A brief description of each segment follows.

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

- The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment s primary focus is on life insurance policies and annuity products that were sold to individuals. In the ordinary course of business, the Acquisitions segment regularly considers acquisitions of blocks of policies or insurance companies. The level of the segment s acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically closed blocks of business (no new policies are being marketed). Therefore earnings and policy liabilities are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

- The Annuities segment markets fixed and variable annuity (VA) products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.

- The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, institutional investors, bank trust departments, and money market funds. The segment also issues funding agreements to the FHLB, and markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans. Additionally, the Company has contracts outstanding pursuant to a funding agreement-backed notes program registered with the United States Securities and Exchange Commission (the SEC) which offered notes to both institutional and retail investors.

- The Asset Protection segment markets extended service contracts and credit life and disability insurance to protect consumers investments in automobiles, watercraft, and recreational vehicles. In addition, the segment markets a guaranteed asset protection (GAP) product. GAP coverage covers the difference between the loan pay-off amount and an asset s actual cash value in the case of a total loss.

- The Corporate and Other segment primarily consists of net investment income (including the impact of carrying excess liquidity), expenses not attributable to the segments above (including interest on certain corporate debt), and a trading portfolio that was previously part of a variable interest entity. This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations.

The Company uses the same accounting policies and procedures to measure segment operating income (loss) and assets as it uses to measure consolidated net income available to PLC s common shareowners and assets. Segment operating income (loss) is income before income tax, excluding net realized investment gains and losses (excluding periodic settlements of derivatives associated with debt and certain investments) net of the related amortization of DAC and value of business acquired (VOBA). Operating earnings exclude changes in the GMWB embedded derivatives (excluding the portion attributed to

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economic cost), realized and unrealized gains (losses) on derivatives used to hedge the VA product, actual GMWB incurred claims and net of the related amortization of DAC attributed to each of these items.

In the first quarter of 2012, management revised the definition of operating income (loss) as it relates to certain features of our variable annuity contracts and related hedging activities, to better reflect the basis on which the performance of its business is internally assessed. Under the revised definition, the following items will be excluded from operating income:

- Changes in GMWB embedded derivatives related to this rider feature of certain variable annuity products (excluding the portion attributed to economic costs). Economic cost is the long-term expected average cost of providing the product benefit over the life of the policy based on product pricing assumptions. These include assumptions about the economic/market environment, and elective and non-elective policy owner behavior (e.g. lapses, withdrawal timing, mortality, etc.). These features are considered embedded derivatives under ASC 815.
- Changes in value of certain derivative instruments used to mitigate the risk related to variable annuity contracts.
- That portion of the change in balance sheet components amortized over estimated gross profit that is attributed to the embedded GMWB derivative and related economic hedges (e.g. DAC amortization).

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

During the first quarter of 2011, the Company recorded $8.5 million of pre-tax earnings in the Corporate and Other business segment relating to the settlement of a dispute with respect to certain investments.

There were no significant intersegment transactions during the six months ended June 30, 2012 and 2011.

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The following tables summarize financial information for the Company s segments:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2012	2011(4)	2012	2011(4)
	(Dollars In Thousands)			
Revenues				
Life Marketing	$ 339,091	$ 326,427	$ 682,633	$ 656,764
Acquisitions	261,296	242,771	560,805	442,894
Annuities	181,592	153,602	321,016	283,734
Stable Value Products	34,360	46,421	69,016	91,136
Asset Protection	73,065	69,777	143,671	137,680
Corporate and Other	18,771	63,786	83,215	127,656
Total revenues	$ 908,175	$ 902,784	$ 1,860,356	$ 1,739,864
Segment Operating Income (Loss)				
Life Marketing	$ 30,348	$ 30,263	$ 60,717	$ 49,536
Acquisitions	43,615	39,429	82,714	71,820
Annuities	28,553	17,178	64,336	35,818
Stable Value Products	15,958	19,142	28,604	28,337
Asset Protection	6,479	5,685	11,445	12,537
Corporate and Other	(25,397)	3,977	2,483	13,998
Total segment operating income	99,556	115,674	250,299	212,046
Realized investment gains (losses) - investments(1)(3)	48,044	48,709	70,549	51,443
Realized investment gains (losses) - derivatives(2)	(39,913)	(29,840)	(62,582)	(38,181)
Income tax expense	(31,532)	(46,920)	(83,090)	(78,807)
Net income available to PLC s common shareowners	$ 76,155	$ 87,623	$ 175,176	$ 146,501
(1) Realized investment gains (losses) - investments	$ 51,985	$ 49,430	$ 68,947	$ 48,239
Less: related amortization of DAC/VOBA	3,941	721	(1,602)	(3,204)
	$ 48,044	$ 48,709	$ 70,549	$ 51,443
(2) Realized investment gains (losses) - derivatives	$ (48,268)	$ (34,993)	$ (78,177)	$ (47,679)
Less: VA GMWB economic cost	(8,355)	(5,153)	(15,595)	(9,498)
	$ (39,913)	$ (29,840)	$ (62,582)	$ (38,181)

(3) Includes other-than-temporary impairments of $13.6 million and $32.4 million for the three and six months ended June 30, 2012, respectively, as compared to $9.5 million and $ 15.2 million for the three and six months ended June 30, 2011, respectively.

(4)Annuity segment operating income changed due to changes the Company has made to the definition of operating income with regards to GMWB.

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Operating Segment Assets
As of June 30, 2012
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 11,588,980	$ 11,374,497	$ 16,144,323	$ 2,674,391
Deferred policy acquisition costs and value of business acquired	1,923,591	746,189	467,001	1,921
Goodwill	10,192	37,164		
Total assets	$ 13,522,763	$ 12,157,850	$ 16,611,324	$ 2,676,312

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 762,399	$ 8,311,937	$ 20,068	$ 50,876,595
Deferred policy acquisition costs and value of business acquired	68,268	1,349		3,208,319
Goodwill	62,671	83		110,110
Total assets	$ 893,338	$ 8,313,369	$ 20,068	$ 54,195,024

Operating Segment Assets
As of December 31, 2011
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 10,885,833	$ 11,471,856	$ 14,945,002	$ 2,767,163
Deferred policy acquisition costs and value of business acquired	1,912,916	824,277	435,462	2,347
Goodwill	10,192	38,713		
Total assets	$ 12,808,941	$ 12,334,846	$ 15,380,464	$ 2,769,510

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 727,417	$ 7,964,907	$ 21,491	$ 48,783,669
Deferred policy acquisition costs and value of business acquired	71,427	1,612		3,248,041
Goodwill	62,671	83		111,659
Total assets	$ 861,515	$ 7,966,602	$ 21,491	$ 52,143,369

17. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to June 30, 2012, and through the date it filed its consolidated condensed financial statements with the United States Securities and Exchange Commission. All accounting and disclosure requirements related to subsequent events are included in the Company s consolidated financial statements.

Subsequent to the current period, on July 17, 2012 the Company replaced the Credit Facility with the 2012 Credit Facility. Under the 2012 Credit Facility, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of $750 million. The Company has the right in certain circumstances to request that the commitment under the 2012 Credit Facility be increased up to a maximum principal amount of $1.0 billion. Balances outstanding under the 2012 Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i)

LIBOR plus a spread based on the ratings of the Company s senior unsecured long-term debt (Senior Debt), or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent s prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company s Senior Debt. The 2012 Credit Facility also provides for a facility fee at a rate that varies with the ratings of the Company s Senior Debt and that is calculated on the aggregate amount of commitments under the 2012 Credit Facility, whether used or unused. The maturity date on the 2012 Credit Facility is July 17, 2017.

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

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1, *Financial Statements (Unaudited)*, of this Quarterly Report on Form 10-Q and our audited consolidated financial statements for the year ended December 31, 2011, included in our Annual Report on Form 10-K.

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

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior period amounts comparable to those of the current period. Such reclassifications had no effect on previously reported net income or shareowners equity. In January of 2012, we adopted ASU No. 2010-26 which changed certain previously reported items within our financial statements and accompanying notes and the MD&A. The changes affected previously reported amounts in Note 3, *Significant Acquisitions*, Note 5, *Deferred Acquisition Costs and Value of Business Acquired*, Note 12, *Earnings Per Share*, Note 13, *Income Taxes*, Note 16, *Operating Segments*, and within our Life Marketing, Annuities, and Asset Protection segments.

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

This report reviews our financial condition and results of operations including our liquidity and capital resources. Historical information is presented and discussed, and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements instead of historical facts and may contain words like believe, expect, estimate, project, budget, forecast, anticipate, plan, will, other words, phrases, or expressions with similar meaning. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise. For more information about the risks, uncertainties and other factors that could affect our future results, please see Part I, Item II, *Risks and Uncertainties* and Part II, Item 1A, *Risk Factors*, of this report, as well as Part I, Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

OVERVIEW

Our business

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

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

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

- ***Life Marketing*** - We market universal life (UL), variable universal life, bank-owned life insurance (BOLI), and level premium term insurance (traditional) products on a national basis primarily through networks of independent insurance agents and brokers, stockbrokers, and independent marketing organizations.

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- ***Acquisitions*** - We focus on acquiring, converting, and servicing policies acquired from other companies. The segment s primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment s acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisition segment are typically closed blocks of business (no new policies are being marketed). Therefore earnings and policy liabilities are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

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

- ***Stable Value Products*** - We sell fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, institutional investors, bank trust departments, and money market funds. The segment also issues funding agreements to the Federal Home Loan Bank (FHLB), and markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans.

- ***Asset Protection*** - We market extended service contracts and credit life and disability insurance to protect consumers investments in automobiles, watercraft, and recreational vehicles. In addition, the segment markets a guaranteed asset protection (GAP) product. GAP coverage covers the difference between the loan pay-off amount and an asset s actual cash value in the case of a total loss.

- ***Corporate and Other*** - This segment primarily consists of net investment income (including the impact of carrying excess liquidity), expenses not attributable to the segments above (including interest on certain corporate debt), and a trading portfolio that was previously part of a variable interest entity. This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations.

EXECUTIVE SUMMARY

Our financial results for this quarter and the year to date reflect solid results. Encouraging developments in the quarter included favorable mortality results, sequentially higher life insurance and asset protection sales, positive fund flows in the annuity segment, and strong stable value spreads. In the face of continued macroeconomic challenges, we remain focused on disciplined execution of our growth plans, careful allocation of capital, and prudent expense and risk management.

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

RISKS AND UNCERTAINTIES

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

General

- exposure to the risks of natural and man-made catastrophes, pandemics, malicious acts, terrorist acts and climate change, which could adversely affect our operations and results;
- the occurrence of computer viruses, information security breaches, disasters, or other unanticipated events could affect our data processing systems or those of our business partners or service providers and could damage our business and adversely affect our financial condition and results of operations;
- our results and financial condition may be negatively affected should actual experience differ from management s assumptions and estimates;
- we may not realize our anticipated financial results from our acquisitions strategy;
- we are dependent on the performance of others;
- our risk management policies, practices, and procedures could leave us exposed to unidentified or unanticipated risks, which could negatively affect our business or result in losses;
- our strategies for mitigating risks arising from our day-to-day operations may prove ineffective resulting in a material adverse effect on our results of operations and financial condition;

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Financial environment

- interest rate fluctuations or significant and sustained periods of low interest rates could negatively affect our interest earnings and spread income, or otherwise impact our business;
- our investments are subject to market and credit risks, which could be heightened during periods of extreme volatility or disruption in financial and credit markets;
- equity market volatility could negatively impact our business;
- our use of derivative financial instruments within our risk management strategy may not be effective or sufficient;
- credit market volatility or disruption could adversely impact our financial condition or results from operations;
- our ability to grow depends in large part upon the continued availability of capital;
- we could be adversely affected by a ratings downgrade or other negative action by a ratings organization;
- we could be forced to sell investments at a loss to cover policyholder withdrawals;
- disruption of the capital and credit markets could negatively affect our ability to meet our liquidity and financing needs;
- difficult general economic conditions could materially adversely affect our business and results of operations;
- we may be required to establish a valuation allowance against our deferred tax assets, which could materially adversely affect our results of operations, financial condition, and capital position;
- we could be adversely affected by an inability to access our credit facility;
- our financial condition or results of operations could be adversely impacted if our assumptions regarding the fair value and future performance of our investments differ from actual experience;
- the amount of statutory capital that we have and the amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control;
- we operate as a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations and pay dividends;

Industry

- we are highly regulated and subject to numerous legal restrictions and regulations;

- changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;

- financial services companies are frequently the targets of legal proceedings, including class action litigation, which could result in substantial judgments;

- publicly held companies in general and the financial services industry in particular are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny;

- new accounting rules, changes to existing accounting or reserving rules, or the grant of permitted accounting practices to competitors could negatively impact us;

- use of reinsurance introduces variability in our statements of income;

- our reinsurers could fail to meet assumed obligations, increase rates, or be subject to adverse developments that could affect us;

- our policy claims fluctuate from period to period resulting in earnings volatility;

Competition

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

- our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business; and

- we may not be able to protect our intellectual property and may be subject to infringement claims.

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

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CRITICAL ACCOUNTING POLICIES

Our accounting policies inherently require the use of judgments relating to a variety of assumptions and estimates, in particular expectations of current and future mortality, morbidity, persistency, expenses, and interest rates, as well as expectations around the valuations of securities. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated condensed financial statements. For a complete listing of our critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2011.

Deferred acquisition costs and value of business acquired We incur significant costs in connection with acquiring new insurance business. Portion of these costs, which are incremental direct costs associated with successfully acquired policies and coinsurance of blocks of policies, are deferred and amortized over future periods. The recovery of such costs is dependent on the future profitability of the related policies. The amount of future profit is dependent principally on investment returns, mortality, morbidity, persistency, and expenses to administer the business and certain economic variables, such as inflation. These costs are amortized over the expected lives of the contracts, based on the level and timing of either gross profits or gross premiums, depending on the type of contract. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in the impairment of the asset and a charge to income if estimated future profits are less than the unamortized deferred amounts.

RESULTS OF OPERATIONS

We use the same accounting policies and procedures to measure segment operating income (loss) and assets as we use to measure consolidated net income available to PLC s common shareowners and assets. Segment operating income (loss) is income before income tax, excluding net realized investment gains and losses (excluding periodic settlements of derivatives associated with debt and certain investments) net of the related amortization of deferred acquisition costs (DAC) and value of business acquired (VOBA). Operating earnings exclude changes in the guaranteed minimum withdrawal benefits (GMWB) embedded derivatives (excluding the portion attributed to economic cost), realized and unrealized gains (losses) on derivatives used to hedge the VA product, actual GMWB incurred claims and net of the related amortization of DAC attributed to each of these items.

In the first quarter of 2012, management revised the definition of operating income (loss) as it relates to certain features of our variable annuity contracts and related hedging activities, to better reflect the basis on which the performance of our business is internally assessed. Under the revised definition, the following items will be excluded from operating income:

- Changes in GMWB embedded derivatives related to this rider feature of certain variable annuity products (excluding the portion attributed to economic costs). Economic cost is the long-term expected average cost of providing the product benefit over the life of the policy based on product pricing assumptions. These include assumptions about the economic/market environment, and elective and non-elective policy owner behavior (e.g. lapses, withdrawal timing, mortality, etc.). These features are considered embedded derivatives under ASC 815.

- Changes in value of certain derivative instruments used to mitigate the risk related to variable annuity contracts.

- That portion of the change in balance sheet components amortized over estimated gross profit that is attributed to the embedded GMWB derivative and related economic hedges (e.g. DAC amortization).

Segment operating income (loss) represents the basis on which the performance of our 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 net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

However, segment operating income (loss) should not be viewed as a substitute for accounting principles generally accepted in the United States of America (GAAP) net income available to PLC s common shareowners.

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In addition, our segment operating income (loss) measures may not be comparable to similarly titled measures reported by other companies.

We periodically review and update as appropriate our key assumptions which include future mortality, expenses, lapses, premium persistency, investment yields, interest spreads, and equity market returns. Changes to these assumptions result in adjustments which increase or decrease DAC amortization and/or benefits and expenses. The periodic review and updating of assumptions is referred to as unlocking .

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

	For The Three Months Ended June 30,			For The Six Months Ended June 30,		
	2012	2011(4)	Change	2012	2011(4)	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
Segment Operating Income (Loss)						
Life Marketing	$ 30,348	$ 30,263	0.3%	$ 60,717	$ 49,536	22.6%
Acquisitions	43,615	39,429	10.6	82,714	71,820	15.2
Annuities	28,553	17,178	66.2	64,336	35,818	79.6
Stable Value Products	15,958	19,142	(16.6)	28,604	28,337	0.9
Asset Protection	6,479	5,685	14.0	11,445	12,537	(8.7)
Corporate and Other	(25,397)	3,977	n/m	2,483	13,998	(82.3)
Total segment operating income	99,556	115,674	(13.9)	250,299	212,046	18.0
Realized investment gains (losses) - investments(1)(3)	48,044	48,709		70,549	51,443	
Realized investment gains (losses) - derivatives(2)	(39,913)	(29,840)		(62,582)	(38,181)	
Income tax expense	(31,532)	(46,920)		(83,090)	(78,807)	
Net income available to PLC s common shareowners	$ 76,155	$ 87,623	(13.1)	$ 175,176	$ 146,501	19.6
(1) Realized investment gains (losses) - investments(3)	$ 51,985	$ 49,430		$ 68,947	$ 48,239	
Less: related amortization of DAC	3,941	721		(1,602)	(3,204)	
	$ 48,044	$ 48,709		$ 70,549	$ 51,443	
(2) Realized investment gains (losses) - derivatives	$ (48,268)	$ (34,993)		$ (78,177)	$ (47,679)	
Less: VA GMWB economic cost	(8,355)	(5,153)		(15,595)	(9,498)	
	$ (39,913)	$ (29,840)		$ (62,582)	$ (38,181)	

(3) Includes other-than-temporary impairments of $13.6 million and $32.4 million for the three and six months ended June 30, 2012, respectively, as compared to $9.5 million and $15.2 million for the three and six months ended June 30, 2011, respectively.

(4)Annuity segment operating income changed due to changes we have made to the definition of operating income with regards to GMWB.

For The Three Months Ended June 30, 2012 as compared to The Three Months Ended June 30, 2011

Net income available to PLC s common shareowners for the three months ended June 30, 2012, included a $16.1 million, or 13.9%, decrease in segment operating income. The decrease was primarily related to a $29.4 million decrease in the Corporate and Other segment and a $3.2 million decrease in the Stable Value Products segment. These decreases were partly offset by a $4.2 million increase in the Acquisitions segment, an $11.4 million increase in the Annuities segment, and a $0.8 million increase in the Asset Protection segment.

We experienced net realized gains of $3.7 million for the three months ended June 30, 2012, as compared to net realized gains of $14.4 million for the three months ended June 30, 2011. The gains realized for the three months ended June 30, 2012, were primarily related to $16.1 million of gains related to investment securities sale activity, net gains of $4.6 million of derivatives related to variable annuity contracts, and $7.4 million of gains related to the net activity of the modified coinsurance portfolio. Partially offsetting these gains were losses of $13.6 million for other-than-temporary impairment credit-related losses and $10.8 million of losses related to other investment and derivative activity.

- Life Marketing segment operating income was $30.3 million for the three months ended June 30, 2012, representing an increase of $0.1 million, or 0.3%, from the three months ended June 30, 2011. The increase was primarily due to higher investment income and more favorable traditional life claims, partly offset by less favorable unlocking and an increase in reserves resulting from changes in universal life interest rate assumptions.

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- Acquisitions segment operating income was $43.6 million for the three months ended June 30, 2012, an increase of $4.2 million, or 10.6%, as compared to the three months ended June 30, 2011, primarily due to the addition of the Liberty Life Insurance Company (Liberty Life) coinsurance transaction and more favorable mortality. The Liberty Life transaction added three months of operating earnings in the second quarter of 2012 as compared to only two months in the second quarter of 2011. This was partly offset by the expected runoff in the older acquired blocks.

- Annuities segment operating income was $28.6 million for the three months ended June 30, 2012, as compared to $17.2 million for the three months ended June 30, 2011, an increase of $11.4 million, or 66.2%. This variance included a favorable change of $5.4 million in operating revenue driven by higher policy fees and other income in the VA line and a favorable change of $11.2 million in operating policy benefits primarily due to lower interest crediting rates. These favorable changes were partially offset by increases in non-deferred expenses and unfavorable changes in DAC unlocking.

- Stable Value Products segment operating income was $16.0 million and decreased $3.2 million, or 16.6%, for the three months ended June 30, 2012, as compared to the three months ended June 30, 2011. The decrease in operating earnings resulted from a 79 basis point decrease in the operating spread to 233 basis points for the three months ended June 30, 2012, as compared to an operating spread of 312 basis points for the three months ended June 30, 2011. The operating spread decrease was caused by a $4.7 million reduction in income from participating mortgage loan and bank loan fees, as compared to the second quarter of 2011. The adjusted operating spread, which excludes participating income, remained relatively flat. This variance was partially offset by higher average account values and lower expenses.

- Asset Protection segment operating income was $6.5 million, representing an increase of $0.8 million, or 14.0%, for the three months ended June 30, 2012, as compared to the three months ended June 30, 2011. Service contract earnings increased $1.4 million, or 58.0%, primarily related to higher sales. Credit insurance earnings decreased $0.3 million, primarily due to higher expenses. Earnings from the GAP product line decreased $0.3 million, or 10.7%, primarily due to slightly higher losses.

- Corporate and Other segment operating loss was $25.4 million for the three months ended June 30, 2012, as compared to operating income of $4.0 million for the three months ended June 30, 2011. The decrease was primarily due to a $20.6 million unfavorable variance related to gains on the repurchase of non-recourse funding obligations. The segment did not generate any gains on these repurchases for the three months ended June 30, 2012, as compared to $20.6 million of pre-tax gains generated during the three months ended June 30, 2011. The remaining variance was primarily due to a $7.2 million deferred issue cost write-off recorded during the second quarter of 2012.

For The Six Months Ended June 30, 2012 as compared to The Six Months Ended June 30, 2011

Net income available to PLC s common shareowners for the six months ended June 30, 2012, included a $38.3 million, or 18.0%, increase in segment operating income. The increase was primarily related to an $11.2 million increase in the Life Marketing segment, a $10.9 million increase in the Acquisitions segment, a $28.5 million increase in the Annuities segment, and a $0.3 million increase in the Stable Value Products segment. These increases were partly offset by a $1.1 million decrease in the Asset Protection segment and an $11.5 million decrease in the Corporate and Other segment.

We experienced net realized losses of $9.2 million for the six months ended June 30, 2012, as compared to net realized gains of $0.6 million for the six months ended June 30, 2011. The losses realized for the six months ended June 30, 2012, were primarily related to losses of $32.4 million for other-than-temporary impairment credit-related losses, net losses of $36.6 million of derivatives related to variable annuity contracts, and a $12.7 million loss related to other investment and derivative activity. Partially offsetting these losses were $36.2 million of gains related to investment securities sale activity and $36.2 million of gains related to the net activity of the modified coinsurance portfolio.

- Life Marketing segment operating income was $60.7 million for the six months ended June 30, 2012, representing an increase of $11.2 million, or 22.6%, from the six months ended June 30, 2011. The increase was primarily due to higher investment income, a favorable change in unlocking, more favorable traditional life claims, and lower operating expenses, partly offset by an increase in reserves resulting from changes in universal life interest rate assumptions.

- Acquisitions segment operating income was $82.7 million for the six months ended June 30, 2012, an increase of $10.9 million, or 15.2%, as compared to the six months ended June 30, 2011, primarily due to the addition of the Liberty Life coinsurance transaction. The Liberty Life transaction added $24.1 million to the segment operating income in the first six months of 2012, an increase of $15.8 million as compared to the first six months of 2011. In addition, reinsurance terminations increased operating income $2.3 million in the first quarter of 2012. This was partly offset by the expected runoff in the in-force business.

- Annuities segment operating income was $64.3 million for the six months ended June 30, 2012, as compared to $35.8 million for the six months ended June 30, 2011, an increase of $28.5 million or 79.6%. This variance included a favorable change of $17.5 million in operating revenue driven by higher policy fees and other income in the VA line and a favorable change of $15.7 million in operating policy benefits. The remainder of the increase is due to favorable DAC unlocking that was offset by higher non-deferred expenses.

- Stable Value Products segment operating income was $28.6 million and increased $0.3 million, or 0.9%, for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011. The increase in operating earnings resulted primarily from higher account values and lower expenses. We also called certain retail notes, which accelerated DAC amortization of $3.1 million on those called contracts for the six months ended June 30, 2011. Partially offsetting this increase was a 15 basis point decrease in the operating spread to 208 basis points for the six months ended June 30, 2012, as compared to an operating spread of 223 basis points for the six months ended June 30, 2011. The operating spread was negatively impacted by a $4.7 million decrease in participating mortgage loan and bank loan fee income, as compared to the six months ended June 30, 2011. The adjusted operating spread, which excludes participating income, increased 25 basis points over the prior year.

- Asset Protection segment operating income was $11.4 million, representing a decrease of $1.1 million, or 8.7%, for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, primarily due to a $2.0 million legal settlement recorded in the first quarter of 2012. Credit insurance earnings decreased $2.3 million primarily due to the previously mentioned $2.0 million legal settlement. Service contract earnings increased $0.6 million, or 9.5%, primarily related to higher sales. Earnings from the GAP product line increased $0.6 million, or 11.1% due to lower expenses.

- Corporate and Other segment operating income was $2.5 million for the six months ended June 30, 2012, as compared to operating income of $14.0 million for the six months ended June 30, 2011. The decrease was primarily due to $8.5 million of pre-tax earnings that were recorded during the first quarter of 2011 relating to the settlement of a dispute with respect to certain investments. In addition, during the second quarter of 2012, we recorded an unfavorable $7.2 million deferred issue cost write-off. Partially offsetting this decrease was a $4.8 million favorable variance related to gains on the repurchase of non-recourse funding obligations. For the six months ended June 30, 2012, $35.5 million of pre-tax gains were generated by r