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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from to

Commission File Number 001-11339

Protective Life Corporation

(Exact name of registrant as specified in its charter)

Delaware	**95-2492236**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

2801 Highway 280 South

Birmingham, Alabama 35223

(Address of principal executive offices and zip code)

(205) 268-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer x	Accelerated Filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

Number of shares of Common Stock, $0.50 Par Value, outstanding as of May 5, 2009: 70,025,220

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PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED MARCH 31, 2009

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

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

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	March 31, 2009	December 31, 2008
	(Dollars In Thousands)	
Assets		
Investments:		
Fixed maturities, at fair market value (amortized cost: 2009 - $22,602,876; 2008 - $23,091,708)	$ 19,571,798	$ 20,098,980
Equity securities, at fair market value (cost: 2009 - $335,370; 2008 - $358,159)	268,211	302,132
Mortgage loans	3,858,573	3,848,288
Investment real estate, net of accumulated depreciation (2009 - $494; 2008 - $453)	14,769	14,810
Policy loans	800,617	810,933
Other long-term investments	451,847	432,137
Short-term investments	845,558	1,059,506
Total investments	25,811,373	26,566,786
Cash	180,648	149,358
Accrued investment income	286,363	287,543
Accounts and premiums receivable, net of allowance for uncollectible amounts (2009 - $5,399; 2008 - $5,177)	59,867	55,017
Reinsurance receivables	5,273,817	5,254,788
Deferred policy acquisition costs and value of business acquired	4,243,218	4,200,321
Goodwill	120,179	120,954
Property and equipment, net of accumulated depreciation (2009 - $119,899; 2008 - $117,948)	37,795	39,707
Other assets	174,777	174,035
Income tax receivable	81,012	73,457
Deferred income tax	359,098	380,069
Assets related to separate accounts		
Variable annuity	1,907,272	2,027,470
Variable universal life	224,824	242,944
Total Assets	$ 38,760,243	$ 39,572,449
Liabilities		
Policy liabilities and accruals	$ 18,348,202	$ 18,260,379
Stable value product account balances	4,360,658	4,960,405
Annuity account balances	9,316,791	9,357,427
Other policyholders funds	443,173	421,313
Other liabilities	719,550	926,821
Non-recourse funding obligations	1,375,000	1,375,000
Long-term debt	756,852	714,852
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	1,907,272	2,027,470
Variable universal life	224,824	242,944
Total liabilities	37,977,065	38,811,354
Commitments and contingencies - Note 4		
Shareowners equity		
Preferred Stock; $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2009 and 2008 - 160,000,000 shares issued: 2009 and 2008 - 73,251,960	36,626	36,626
Additional paid-in-capital	449,009	448,481
Treasury stock, at cost (2009 - 3,265,531 shares; 2008 - 3,346,153 shares)	(26,490)	(26,978)
Unallocated stock in Employee Stock Ownership Plan (2009 - 0 shares ; 2008 - 128,995 shares)		(474)
Retained earnings	1,984,237	1,970,496
Accumulated other comprehensive income (loss):		
Net unrealized (losses) on investments, net of income tax: (2009 - $(858,117); 2008 - $(863,520))	(1,564,310)	(1,575,028)
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2009 - $(9,621); 2008	(17,867)	

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

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

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

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The year-end consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Accounting Pronouncements Recently Adopted

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combinations* (SFAS No. 141(R)). In December of 2007, the FASB issued SFAS No. 141(R). This Statement is a revision to the original Statement and continues the movement toward a greater use of fair values in financial reporting. It changes how business acquisitions are accounted for and will impact financial statements at the acquisition date and in subsequent periods. Further, certain of the changes will introduce more volatility into earnings and thus may impact a company s acquisition strategy. SFAS No. 141(R) will also impact the annual goodwill impairment test associated with acquisitions that close both before and after the effective date of this Statement. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this Statement did not have an impact to the Company s consolidated results of operations or financial position. The Company will apply this Statement to all future business combinations.

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160). In December of 2007, the FASB issued SFAS No. 160. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). The adoption of this Statement did not have an impact on the Company s consolidated results of operations or financial position.

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

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

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

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

FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts* (SFAS No. 163). In May of 2008, the FASB issued SFAS No. 163. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* (SFAS No. 60) applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. This Statement does not apply to financial guarantee insurance contracts that would be within the scope of SFAS No. 133. This Statement is effective for fiscal years and interim periods beginning after December 15, 2008. The standard became effective for the Company on January 1, 2009. The adoption of this Statement did not have an impact on the Company s consolidated results of operations or financial position.

FSP Emerging Issues Task Force (EITF) Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF Issue No. 03-6-1). In June of 2008, the FASB issued FSP EITF Issue No. 03-6-1. This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, *Earnings per Share*. The FSP became effective for financial statements issued for fiscal years and interim periods beginning January 1, 2009. All prior period EPS data presented shall be adjusted retrospectively to conform to the provisions of this FSP. The adoption of this FSP did not have an impact on the Company s consolidated results of operations or financial position.

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

No. 157-4 to provide additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157), when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company has elected to early adopt the FSP. Early adoption of the FSP did not have a significant impact on the Company s consolidated results of operations or financial position.

FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS No. 115-2 and FAS No. 124-2) In April of 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2 to amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments of debt and equity securities in the financial statements. This FSP addresses the timing of impairment recognition and provides greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. Impairments will continue to be measured at fair value with credit losses recognized in earnings and non-credit losses recognized in other comprehensive income. This FSP also requires increased and timelier disclosures regarding measurement techniques, credit losses, and an aging of securities with unrealized losses. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has elected to early adopt the FSP

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and recorded total other-than-temporary impairments during the three months ended March 31, 2009 of approximately $117.3 million with $27.5 million of this amount recorded in other comprehensive income. The impact of recording a portion of the other-than-temporary impairments in other comprehensive income resulted in an increase in net income of $17.9 million or $0.25 per share for the three months ended March 31, 2009. The adoption of the FSP did not require a cumulative effect adjustment to retained earnings at January 1, 2009 since all other-than-temporary impairments recorded by the Company in prior periods were credit related losses.

Accounting Pronouncements Not Yet Adopted

FASB Statement No. 132(R)-1, ***Employers Disclosures about Postretirement Benefit Plan Assets*** **(SFAS No. 132(R)-1).** In December of 2008, the FASB issued SFAS No. 132(R)-1. This Statement does not require any changes to current accounting. It requires additional disclosures related to Postretirement Benefit Plan Assets. This Statement will provide users of financial statements with an understanding of: 1) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, 2) the major categories of plan assets, 3) the inputs and valuation techniques used to measure the fair value of plan assets, 4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and 5) significant concentrations of risk within plan assets. The disclosure requirements will be effective for the Company for the period ending December 31, 2009. The Company does not expect this Statement to have an impact on its consolidated results of operations or financial position.

FSP FAS No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS No. 107-1 and APB 28-1)
In April of 2009, the FASB issued FSP FAS No. 107-1 and APB 28-1 to address concerns for more transparent and timely information in financial reporting by requiring quarterly disclosures about fair value of financial instruments. The guidance relates to fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value. The FSP requires qualitative and quantitative information about fair value estimates for all financial instruments not measured at fair value. This FSP is effective for interim and annual reporting reports periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company does not expect this FSP to have a significant impact on its consolidated results of operations or financial position.

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 of Notes to Consolidated Financial Statements included in the Company s 2008 Form 10-K Annual Report. There were no significant changes to the Company s accounting policies during the three months ended March 31, 2009 other than those related to credit losses and the adoption of FSP FAS No. 115-2 and FAS No. 124-2 as discussed in Note 2, *Investment Operations*, and the following:

Guaranteed minimum withdrawal benefits - We establish liabilities for guaranteed minimum withdrawal benefits (GMWB) on our variable annuity products. The GMWB is valued in accordance with SFAS No. 133 which utilizes the valuation technique prescribed by SFAS No. 157, which requires the liability to be marked-to-market using current implied volatilities for the equity indices. The methods used to estimate the liabilities employ assumptions about

mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. We assume mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. In the first quarter of 2009, the assumption for long term volatility used for projection purposes was updated to reflect recent market conditions. The liability calculation was changed to reflect a rate increase for all GMWB policyholders.

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Reclassifications

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

2. INVESTMENT OPERATIONS

Net realized investment gains (losses) for all other investments for the three months ended March 31, are summarized as follows:

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

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

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

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

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

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

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The amortized cost and estimated market value of available-for-sale fixed maturities as of March 31, 2009, by expected maturity, are shown as follows. Expected maturities are derived from rates of prepayment that may differ from actual rates of prepayment.

	Estimated Amortized Cost	Estimated Fair Market Value
	(Dollars In Thousands)	
Due in one year or less	$ 1,201,430	$ 1,164,451
Due after one year through five years	5,616,487	4,874,749
Due after five years through ten years	3,750,102	3,344,378
Due after ten years	8,977,633	7,130,977
	$ 19,545,652	$ 16,514,555

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

During the three months ended March 31, 2009, the Company recorded other-than-temporary impairments of investments of $117.3 million, of which $89.8 million was recorded in earnings and $27.5 million was recorded in other comprehensive income (loss). Other-than-temporary impairments were $19.4 million and $97.9 million for securities related to equity securities and debt securities. Other-than-temporary impairments related to debt securities that the Company does not intend to sell and does not expect to be required to sell prior to recovering amortized cost were $67.5 million, with $40.0 million of credit losses recorded on debt securities in earnings, and $27.5 million of non-credit losses recorded in other comprehensive income (loss). Other-than-temporary impairments related to debt securities that the Company intends to sell or expects to be required to sell were $30.4 million and were recorded in earnings.

The following chart is a rollforward of credit losses for the three months ended March 31, 2009, on debt securities held by the Company for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (loss):

	Credit Losses
	(Dollars In Thousands)

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

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The following table includes the Company s investments gross unrealized losses and fair value that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2009:

	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Loss	Market Value	Unrealized Loss	Market Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	$ 610,870	$ (153,913)	$ 2,592,909	$ (500,193)	$ 3,203,779	$ (654,106)
Commercial mortgage-backed securities	200,706	(36,092)	659,533	(68,030)	860,239	(104,122)
Asset-backed securities	456,163	(32,478)	635,564	(83,959)	1,091,727	(116,437)
US government	16,638	(2,081)			16,638	(2,081)
States, municipalities, etc.	57	(1)	872	(140)	929	(141)
Convertibles bonds			22	(66)	22	(66)
Other corporate bonds	4,815,656	(895,419)	3,477,634	(1,373,769)	8,293,290	(2,269,188)
Equities	80,353	(41,254)	50,381	(29,030)	130,734	(70,284)
	$ 6,180,443	$ (1,161,238)	$ 7,416,915	$ (2,055,187)	$ 13,597,358	$ (3,216,425)

For commercial mortgage-backed securities in an unrealized loss position for greater than 12 months, $66.7 million of the total $2.1 billion unrealized loss relates to securities issued in Company-sponsored commercial loan securitizations. These losses relate primarily to market illiquidity as opposed to underlying credit concerns. Factors such as credit enhancements within the deal structures and the underlying collateral performance and characteristics support the recoverability of the investments. The other corporate bonds category has gross unrealized losses greater than 12 months of $1.4 billion as of March 31, 2009. These losses relate primarily to fluctuations in credit spreads. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information including the Company s ability and intent to hold these securities to recovery. The Company does not consider these unrealized loss positions to be other-than-temporary, based on the factors discussed and because the Company has the ability and intent to hold equity investments until the fair values recover, and does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of debt securities.

As of March 31, 2009, the Company had bonds which were rated below investment grade of $1.4 billion, and had an amortized cost of $2.2 billion. Not included in these below investment grade bonds as of March 31, 2009, are $117.9 million of securities in the Company s trading securities portfolio. As of March 31, 2009, approximately $30.7 million of the bonds rated below investment grade were securities issued in Company-sponsored commercial mortgage loan securitizations. Approximately $478.9 million of the below investment grade bonds are not publicly traded.

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

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

3. NON-RECOURSE FUNDING OBLIGATIONS

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

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

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4. COMMITMENTS AND CONTINGENCIES

The Company is contingently liable to obtain a $20 million letter of credit under indemnity agreements with directors. Such agreements provide insurance protection in excess of the directors and officers liability insurance in-force at the time up to $20 million. Should certain events occur constituting a change in control, the Company must obtain the letter of credit upon which directors may draw for defense or settlement of any claim relating to performance of their duties as directors. The Company has similar agreements with certain of its officers providing up to $10 million in indemnification that are not secured by the obligation to obtain a letter of credit. These obligations are in addition to the customary obligation to indemnify officers and directors contained in the Company s bylaws.

Under insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. The Company does not believe such assessments will be materially different from amounts already provided for in the financial statements. Most of these laws do provide, however, that an assessment may be excused or deferred if it would threaten an insurer s own financial strength.

A number of civil jury verdicts have been returned against insurers, broker dealers and other providers of financial services involving sales, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Often these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive and non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive non-economic compensatory damages which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. The Company, like other financial service companies, in the ordinary course of business, is involved in such litigation and arbitration. Although the Company cannot predict the outcome of any such litigation or arbitration, the Company does not believe that any such outcome will have a material impact on its financial condition or results of the operations.

5. STOCK-BASED COMPENSATION

Performance shares awarded during the three months ended March 31, 2009 and 2008, and the estimated fair value of the awards at grant date are as follows:

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

The criteria for payment of performance awards is based primarily upon a comparison of the Company s average return on average equity (earlier upon the death, disability, or retirement of the executive, or in certain circumstances, upon a change in control of the Company) to that of a comparison group of publicly held life and multi-line insurance companies. For the 2008 awards, if the Company s results are below the 25th percentile of the comparison group, no portion of the award is earned. For the 2005-2007 awards, if the Company s results are below the 40th

percentile of the comparison group, no portion of the award is earned. If the Company s results are at or above the 90th percentile, the award maximum is earned. Awards are paid in shares of the Company s Common Stock. As noted in the table above, no awards were granted in the first quarter of 2009.

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Between 1996 and 2009, stock appreciation rights (SARs) were granted to certain officers of the Company to provide long-term incentive compensation based solely on the performance of the Company s Common Stock. The SARs are exercisable either in three, four, or five equal annual installments beginning one year after the date of grant (earlier upon the death, disability, or retirement of the officer, or in certain circumstances, of a change in control of the Company) and expire after ten years or upon termination of employment. The SARs activity as well as weighted-average base price for the three months ended March 31, 2009 is as follows:

	Weighted-Average Base Price per share	No. of SARs
Balance as of December 31, 2008	$ 33.33	1,559,573
SARs granted	3.50	910,829
SARs exercised / forfeited	39.53	(5,200)
Balance as of March 31, 2009	$ 22.30	2,465,202

The SARs issued during the three months ended March 31, 2009 had an estimated fair value at grant date of $0.9 million. The fair value was estimated using a Black-Scholes option pricing model. Assumptions used in the model for the SARs granted (the simplified method under SAB 107 was used for these awards) were as follows: expected volatility of 68.5%, risk-free interest rate of 2.7%, a dividend rate of 10.3%, a 0% forfeiture rate, and the expected exercise date was 2015. The Company will pay an amount in stock equal to the difference between the specified base price of the Company s Common Stock and the market value at the exercise date for each SAR.

Additionally, the Company issued 572,200 restricted stock units at a fair value of $3.50 per unit during the three months ended March 31, 2009. These awards have a total fair value of $2.0 million. Approximately half of these restricted stock units vest in 2012 and the remainder vest in 2013.

6. DEFINED BENEFIT PENSION PLAN AND UNFUNDED EXCESS BENEFITS PLAN

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

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

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

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the three months ended March 31, 2009 and 2008 was immaterial to the Company s financial statements.

7. EARNINGS PER SHARE

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

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

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

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

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8. COMPREHENSIVE INCOME (LOSS)

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

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

9. OPERATING SEGMENTS

The Company operates several business segments each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company periodically evaluates its operating segments in light of the segment reporting requirements prescribed by FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and makes adjustments to its segment reporting as needed. A brief description of each segment follows.

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

- The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment s primary focus is on life insurance policies and annuity products that were sold to individuals. In the ordinary course of business, the Acquisitions segment regularly considers acquisitions of blocks of policies or insurance companies. The level of the segment s acquisition activity is

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

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

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

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markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans.

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

- The Corporate and Other segment primarily consists of net investment income and expenses not attributable to the segments above (including net investment income on capital and interest on debt). This segment also includes earnings from several non-strategic lines of business (primarily cancer insurance, residual value insurance, surety insurance, and group annuities), various investment-related transactions, and the operations of several small subsidiaries.

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

There were no significant intersegment transactions.

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

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

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

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

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

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

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

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

10. GOODWILL

During the three months ended March 31, 2009, the Company decreased its goodwill balance by approximately $0.8 million. The decrease was due to an adjustment in the Acquisitions segment related to tax benefits realized during the first quarter of 2009 on the portion of tax goodwill in excess of GAAP basis goodwill. As of March 31, 2009, the Company had an aggregate goodwill balance of $120.2 million.

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business. Goodwill is tested for impairment at least annually. The Company evaluates the carrying value of goodwill at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or

(3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. The Company utilizes a fair value measurement (discounted cash flow analysis) based on the applied guidance from SFAS No. 157 to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. As of December 31, 2008, the Company evaluated its goodwill and determined that the fair value had not decreased below the carrying value and no adjustment to impair goodwill was necessary in accordance with SFAS No. 142.

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

The Company s material goodwill balances are attributable to its business segments. As previously noted, the Company s operating segments discounted cash flows supported the goodwill balance as of December 31, 2008. In the Company s view, the reduction in market cap is primarily attributable to illiquidity of credit markets and capital markets, concern related to its investment portfolio s unrealized loss positions, impairments recognized during 2008, and an overall fear of the capital levels and potential economic impacts to financial services companies. These factors primarily impact the Company at a corporate level, and largely within the Corporate and Other segment. The Company monitors the aggregate fair value of its reporting units as a comparison to its overall market capitalization. The Company believes the factors that led to the decline in market cap primarily impacted it at a corporate level, and largely within the Corporate and Other segment, which does not carry a material balance of goodwill, as opposed to impacting the prescribed and inherent fair values of the Company s other operating segments and reporting units. As a result, in the Company s view, the decrease in its market cap does not invalidate the Company s discounted cash flow results.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company determined the fair value of its financial instruments based on the fair value hierarchy established in SFAS No. 157 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In the first quarter of 2009, the Company adopted the provisions of SFAS No. 157 for non-financial assets and liabilities (such as property and equipment, goodwill, and other intangible assets) that are required to be measured at fair value on a periodic basis. The effect on the Company s periodic fair value measurements for non-financial assets and liabilities was not material.

In compliance with SFAS No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

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

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

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

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

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

c) Inputs other than quoted market prices that are observable

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

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

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

	Carrying Value Prior to Adoption January 1, 2008	Carrying Value After Adoption January 1, 2008	Transition Adjustment to Retained Earnings Gain (Loss)
		(Dollars In Thousands)	
Equity-indexed annuity reserves, net	$ 145,912	$ 143,634	$ 2,278
Pre-tax cumulative effect of adoption of SFAS No. 157			2,278
Change in deferred income taxes			(808)
Cumulative effect of adoption of SFAS No. 157			$ 1,470

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

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

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

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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

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

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended March 31, 2009, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains (losses)					
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Purchases, Issuances, and Settlements (net)	Transfers in and/or out of Level 3	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
			(Dollars In Thousands)				
Assets:							
Fixed maturity securities - available-for-sale							
Asset-backed securities	$ 682,710	$ (31)	$ 22,961	$ (243)	$	$ 705,397	$
Commercial mortgage-backed securities	855,817		2,079	(6,175)		851,721	
Residential mortgage-backed securities	34			(2)		32	
State, municipalities and political subdivisions	93					93	
All other corporate bonds	88,842	104	937	(17,148)	21,445	94,180	
Total fixed maturity securities - available-for-sale	1,627,496	73	25,977	(23,568)	21,445	1,651,423	
Fixed maturity securities - trading	32,645	493		31,212	(25,342)	39,008	
Total fixed maturity securities	1,660,141	566	25,977	7,644	(3,897)	1,690,431	
Equity securities	76,411		231	(7,559)		69,083	
Other long-term investments (1)	256,973	21,943				278,916	21,943
Short-term investments	1,161		(216)		(108)	837	
Total investments	1,994,686	22,509	25,992	85	(4,005)	2,039,267	21,943
Total assets measured at fair value on a recurring basis	$ 1,994,686	$ 22,509	$ 25,992	$ 85	$ (4,005)	$ 2,039,267	$ 21,943
Liabilities:							
Annuity account balances (2)	$ 152,762	$ 946	$	$ (1,010)	$	$ 152,826	$
Other liabilities (1)	113,311	58,434				54,877	58,434
Total liabilities measured at fair value on a recurring basis	$ 266,073	$ 59,380	$	$ (1,010)	$	$ 207,703	$ 58,434

(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 balance for fair value measurements for the three months ended March 31, 2008, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains (losses)					
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Purchases, Issuances, and Settlements (net)	Transfers in and/or out of Level 3	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)						
Assets:							
Fixed maturity securities - available-for-sale							
Mortgage-backed securities (3)	$ 1,290,299	$	$ (188,997)	$ 897,634	$ 143,320	$ 2,142,256	$
State, municipalities and political subdivisions	9,126		168			9,294	
Public utilities	176,473		210	(151)		176,532	
All other corporate bonds	2,248,703		(43,680)	113,763		2,318,786	
Redeemable preferred stocks	36					36	
Convertible bonds with warrants	227		(47)	(143)		37	
Total fixed maturity securities - available-for-sale	3,724,864		(232,346)	1,011,103	143,320	4,646,941	
Fixed maturity securities - trading	874,380	(11,918)		(136,599)	2,856	728,719	(11,862)
Total fixed maturity securities	4,599,244	(11,918)	(232,346)	874,504	146,176	5,375,660	(11,862)
Equity securities	18,135		(89)	(1)	1	18,046	
Other long-term investments (1)	2,951	5,509				8,460	5,509
Short-term investments	66,327				(20,004)	46,323	
Total investments	4,686,657	(6,409)	(232,435)	874,503	126,173	5,448,489	(6,353)
Total assets measured at fair value on a recurring basis	$ 4,686,657	$ (6,409)	$ (232,435)	$ 874,503	$ 126,173	$ 5,448,489	$ (6,353)
Liabilities:							
Annuity account balances (2)	$ 143,634	$ (1,726)	$	$ (657)	$	$ 146,017	$ (1,726)
Other liabilities (1)	39,168	21,077				18,091	21,077
Total liabilities measured at fair value on a recurring basis	$ 182,802	$ 19,351	$	$ (657)	$	$ 164,108	$ 19,351

(1) Represents certain freestanding and embedded derivatives

(2) Represents liabilities related to equity indexed annuities

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

Total realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either realized investment gains (losses) within the Consolidated Condensed Statements of Income 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 accounted for under SFAS No. 155.

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

The amount of total gains (losses) for assets and liabilities still held as of the reporting date primarily represents changes in fair value of trading securities and certain derivatives that exist as of the reporting date, and the change in fair value of equity indexed annuities accounted for under SFAS No. 155.

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12. INCOME TAXES

There have been no material changes to the balance of unrecognized income tax benefits which impacted earnings for the three months ended March 31, 2009. The Company does not expect to have any material adjustments, within the next twelve months, to its balance of unrecognized income tax benefits in any of the tax jurisdictions in which it conducts its business operations.

In general, Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, requires that a company compute its interim period effective income tax rate based upon its expectation of what such rate will be at year-end. An exception is made when such a rate cannot be reasonably estimated as of the current interim period. Accordingly, it is then appropriate to compute an effective income tax rate based upon year-to-date reported net income. Due to the investment losses reported by the Company in the first quarter of 2009, and the unpredictability of additional losses and certain elements of operating income in the remaining three quarters of 2009, the Company is unable to reasonably estimate its annual income. Based on this fact and the related accounting guidance, the Company has therefore computed its effective income tax rate for the three months ended March 31, 2009 based upon its reported net income for the period.

Based on the Company s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize its deferred tax assets, and therefore the Company did not record a valuation allowance against its material deferred tax assets as of March 31, 2009.

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13. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

The Company has sold credit default protection on liquid traded indices to enhance the return on its investment portfolio. These credit default swaps create credit exposure similar to an investment in publicly-issued fixed maturity cash investments. The credit default swaps relate to the High Yield Series 8 Index and the Investment Grade Series 9 Index and have terms to June 2014 and December 2017, respectively. Defaults within the High Yield Series 8 Index that exceeded the 25% attachment point would require the Company to perform under the credit default swaps, up to the 35% exhaustion point. Defaults within the Investment Grade Series 9 Index that exceeded the 10% attachment point would require the Company to perform under the credit default swaps, up to the 15% exhaustion point. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under the credit derivatives is $55.0 million. As of March 31, 2009, the fair value of the credit derivatives was a liability of $20.5 million. As of March 31, 2009, the Company had collateral of $15.0 million posted with the counterparties to credit default swaps. The collateral is counterparty specific and is not tied to any one contract. If the credit default swaps needed to be settled immediately, the Company would need to post an additional payment of $5.5 million.

As a result of the ongoing disruption in the credit markets, the fair value of these derivatives has fluctuated in response to changing market conditions. The Company believes that the unrealized loss recorded on the $55.0 million notional of credit default swaps is not indicative of the economic value of the investment.

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SFAS No. 133 requires that all derivative instruments be recognized in the balance sheet at fair value. The Company records its derivative instruments on the balance sheet in other long-term investments and other liabilities . The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge related to foreign currency exposure. For derivatives that are designated and qualify as cash flow hedges, the effective portion of the gain or loss realized on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction impacts earnings. The remaining gain or loss on these derivatives is recognized as ineffectiveness in current earnings during the period of the change. For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of change in fair values. Effectiveness of the Company s hedge relationships is assessed on a quarterly basis. The Company accounts for changes in fair values of derivatives that are not part of a qualifying hedge relationship through earnings in the period of change. Changes in the fair value of derivatives that are recognized in current earnings are reported in realized investment gains (losses) derivative financial instruments .

Cash-Flow Hedges

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

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

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

Other Derivatives

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

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

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

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

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

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

- The Company is involved in various modified coinsurance and funds withheld arrangements which, in accordance with DIG B36, contain embedded derivatives that must report changes in fair value through current period earnings. The investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had mark-to-market changes offset the gains or losses on these embedded derivatives.

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

- The Company markets certain variable annuity products with a GMWB rider. Under SFAS No. 133, the GMWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

- The Company entered into credit default swaps to enhance the return on its investment portfolio.

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

	As of March 31, 2009	
	Notional Amount	Fair Value
	(Dollars In Thousands)	
Other long-term investments		
Derivatives not designated as SFAS No. 133 hedging instruments:		
Interest rate	$ 100,000	$ 2,632
Embedded derivative - Modco reinsurance treaties	2,048,169	275,596
Embedded derivative - GMWB	140,004	3,316
Other	5,172	2,539
	$ 2,293,345	$ 284,083
Other liabilities		
Cash flow hedges:		
Inflation	$ 343,526	$ 39,032
Interest rate	280,000	14,481
Derivatives not designated as SFAS No. 133 hedging instruments:		
Credit default swaps	55,000	20,474
Interest rate	260,000	16,109
Embedded derivative - Modco reinsurance treaties	1,051,120	37,697
Embedded derivative - GMWB	382,982	16,925
Other	10,128	1,949
	$ 2,382,756	$ 146,667

Gain (Loss) on Derivatives in Cash Flow Hedging Relationships

	For The Three Months Ended March 31, 2009		
	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income
		(Dollars In Thousands)	
Gain (loss) recognized in other comprehensive income (effective portion):			

Interest rate	$		$		$	12,674
Inflation						998
Gain (loss) reclassified from accumulated other comprehensive income into income (effective portion):						
Interest rate	$		$	(2,116)	$	
Inflation				(1,846)		
Gain (loss) recognized in income (ineffective portion):						
Inflation	$	707	$		$	

Based on the expected cash flows of the underlying hedged items, the Company expects to reclassify $10.8 million out of accumulated other comprehensive income into earnings during the next twelve months.

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Gain (Loss) on Derivatives Not Designated as SFAS No. 133 Hedging Instruments

Realized investment gains (losses) - derivative financial instruments

		For The Three Months Ended March 31, 2009 (Dollars In Thousands)
Interest rate risk		
Mortgage loan commitments	$	2,296
Interest rate swaps		14,148
Credit risk		(4,337)
Embedded derivative - Modco reinsurance treaties		60,632
Embedded derivative - GMWB		19,801
Other		(107)
	$	92,433

Realized investment gains (losses) - all other investments

		For The Three Months Ended March 31, 2009 (Dollars In Thousands)
Fixed income Modco trading portfolio(1)	$	(45,878)

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

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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, 2008, included in our Annual Report on Form 10-K.

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

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

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

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

OVERVIEW

Our business

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

We operate several business segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. We periodically evaluate our operating segments in light of the segment reporting requirements prescribed by the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and make adjustments to our segment reporting as needed.

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

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

- ***Acquisitions*** - We focus on acquiring, converting, and servicing policies acquired from other companies. The segment s primary focus is on life insurance policies and annuity products sold to

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

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

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

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

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

EXECUTIVE SUMMARY

While current economic conditions continue to present significant challenges, we remain confident in our core operating fundamentals. These operating fundamentals allowed us to report a positive net income of $22.1 million and solid operating income in our business segments. In addition, we have implemented cost saving initiatives, started to shift our focus to products that are less capital intensive, implemented pricing initiatives, maintained a strong distribution network, and decreased sales with less attractive spread levels.

During the three months ended March 31, 2009, our pre-tax operating earnings increased $14.2 million compared to the three months ended March 31, 2008, primarily as a result of $44.3 million of favorable mark-to-market change recorded on our trading portfolio, equity indexed annuity product line and embedded derivatives compared to the prior year s quarter, partially offset by $19.2 million of unfavorable unlocking in our variable annuity product line and reduced investment income as we continue to hold a large balance of cash and short-term investments to maintain ample liquidity.

Net income for the three months ended March 31, 2009 was $22.1 million compared to $35.9 million in the prior year s quarter. The $13.7 million decrease was primarily the result of net realized losses of $39.2 million (including $92.4 million of gains related to derivatives, which were offset by $131.7 million of losses related to other investments) for the three months ended March 31, 2009 compared to $29.7 million (including $1.7 million related to derivatives and $28.0 million related to other investments) for the three months ended March 31, 2008, and were partially offset by the related tax effect.

Approximately $12.6 million of net realized gains and $7.7 million of net realized losses for the three months ended March 31, 2009 and 2008, respectively, related to a modified coinsurance (Modco) arrangement, under which the economic risks and benefits of the investments are passed to a third-party reinsurer. Excluding these realized gains and losses, we experienced net realized losses of $51.8 million and $22.0 million for the three months ended March 31, 2009 and 2008, respectively. The first quarter losses were primarily the result of $89.8 million of pre-tax credit related loss other-than-temporary impairments, which related to AbitibiBowater bonds, preferred stock holdings in Citigroup, Alt-A bonds, an IdeaArc bank loan and other mortgage-backed securities. In addition, $27.5 million of pre-tax non-credit related losses were recorded as a component of other comprehensive income. The decline in the estimated fair value of these securities resulted from factors including distressed credit markets,

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bankruptcy filings, circumstances leading to missed interest payments, downgrades in ratings, and interest rate changes. These other-than-temporary impairments resulted from our analysis of circumstances and our belief that credit events, loss severity, changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to these investments below amortized cost.

As a result of spread widening and fluctuations in interest rates during the three months ended March 31, 2009, our net unrealized loss position was $3.1 billion, prior to tax and deferred acquisition costs (DAC) offsets and $1.6 billion, after tax and DAC offsets. This has caused a significant decrease in our GAAP equity balance. While we do not believe that this level of losses will be realized, we cannot be certain when or what percentage of the positions will recover. Until a material amount of these positions recover in value, our GAAP equity balance will continue to be depressed.

The effective tax rate for the three months ended March 31, 2009 was approximately 31.2% compared to a rate of 33.0% for the same period in the prior year. The effective tax rate for the first quarter of 2009 was lower than historical rates due to the relative increased percentage of favorable tax permanent differences to total income in the current quarter caused by realized losses on investment securities.

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

RISKS AND UNCERTAINTIES

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

General

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

- our risk management policies and procedures could leave us exposed to unidentified or unanticipated risk, which could negatively affect our business or result in losses;

Financial environment

- interest rate fluctuations could negatively affect our spread income or otherwise impact our business;
- our investments are subject to market, credit, legal, and regulatory risks, which could be heightened during periods of extreme volatility or disruption in the financial and credit markets;
- equity market volatility could negatively impact our business;
- credit market volatility or disruption could adversely impact our financial condition or results from operations;
- our ability to grow depends in large part upon the continued availability of capital;
- we could be adversely affected by a ratings downgrade or other negative action by a ratings organization;
- a loss of policyholder confidence in our insurance subsidiaries could lead to higher than expected levels of policyholder surrenders and withdrawal of funds;
- we could be forced to sell investments at a loss to cover policyholder withdrawals;
- disruption of the capital and credit markets could negatively affect our ability to meet our liquidity and financing needs;
- difficult conditions in the economy generally could adversely affect our business and results from operations;

- continued deterioration of general economic conditions could result in a severe and extended economic recession, which could materially adversely affect our business and results from operations;
- there can be no assurance that the actions of the United States Government or other governmental and regulatory bodies for the purpose of stabilizing the financial markets will achieve their intended effect;
- we may be required to establish a valuation allowance against our deferred tax assets, which could materially adversely affect our results of operations, financial condition, and capital position;
- we could be adversely affected by an inability to access our credit facility;
- results that differ from expectations or assumptions could adversely impact our investment valuation, financial condition or our results of operations;
- the amount of statutory capital we have and must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly and is sensitive to a number of factors.

Industry

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

Competition

- operating in a mature, highly competitive industry could limit our ability to gain or maintain our position in the industry and negatively affect profitability;
- our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business;
- a ratings downgrade could adversely affect our ability to compete; and
- we may not be able to protect our intellectual property and could also be subject to infringement claims.

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

CRITICAL ACCOUNTING POLICIES

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

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There were no significant changes to the Company s accounting policies during the three months ended March 31, 2009 other than those related to credit losses and the adoption of FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments , as discussed in Note 2, *Investment Operations,* and the following:

Guaranteed minimum withdrawal benefits - We establish liabilities for guaranteed minimum withdrawal benefits (GMWB) on our variable annuity products. The GMWB is valued in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) which utilizes the valuation technique prescribed by FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157), which requires the liability to be marked-to-market using current implied volatilities for the equity indices. The methods used to estimate the liabilities employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. We assume mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. In the first quarter of 2009, the assumption for long term volatility used for projection purposes was updated to reflect recent market conditions. The liability calculation was also changed to reflect a rate increase for all GMWB policyholders.

RESULTS OF OPERATIONS

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

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

	For The Three Months Ended March 31,		
	2009	2008	Change
	(Dollars In Thousands)		
Segment Operating Income (Loss)			
Life Marketing	$ 42,510	$ 46,449	(8.5)%
Acquisitions	33,621	33,576	0.1
Annuities	(575)	2,489	n/m
Stable Value Products	20,207	16,216	24.6
Asset Protection	6,280	9,852	(36.3)
Corporate and Other	(9,247)	(29,973)	n/m
Total segment operating income	92,796	78,609	18.0
Realized investment gains (losses) - investments(1)(3)	(131,747)	(29,119)	
Realized investment gains (losses) - derivatives(2)	71,107	4,099	
Income tax benefit (expense)	(10,021)	(17,707)	
Net income	$ 22,135	$ 35,882	(38.3)
(1) Realized investment gains (losses) - investments(3)	$ (131,669)	$ (28,045)	
Less: related amortization of DAC	78	1,074	
	$ (131,747)	$ (29,119)	
(2) Realized investment gains (losses) - derivatives	$ 92,433	$ (1,657)	
Less: settlements on certain interest rate swaps	2,238	484	
Less: derivative activity related to certain annuities	19,088	(6,240)	
	$ 71,107	$ 4,099	

(3) Includes other-than-temporary impairments of $89.8 million for the three months ended March 31, 2009.

For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Net income for the three months ended March 31, 2009 included a $14.2 million, or 18.0%, increase in segment operating income. The increase was primarily related to a $20.7 million decrease in operating losses in the Corporate and Other segment and a $4.0 million improvement in operating earnings in the Stable Value segment. These increases were partially offset by a $3.9 million decrease in the Life Marketing segment, a $3.6 million decrease in the Asset Protection segment and a $3.1 million decrease in the Annuities segment. Changes in fair value related to the Corporate and Other trading portfolio and the Annuities segment increased operating earnings by $18.3 million for the three months ended March 31, 2009.

We experienced net realized losses of $39.2 million for the three months ended March 31, 2009, compared to $29.7 million for the same period of 2008. The losses realized for the three months ended March 31, 2009 included $89.8 million of credit related other-than-temporary impairment charges related to AbitibiBowater bonds, Citigroup preferred stock holdings, an IdeaArc bank loan and Alt-A and prime residential

mortgage-backed securities. These losses were partially offset by realized gains on portfolio activity.

- Life Marketing segment operating income was $42.5 million for the three months ended March 31, 2009, representing a decrease of $3.9 million, or 8.5%, from the three months ended March 31, 2008. The decrease was primarily due to less favorable mortality, lower allocated investment income on the traditional line of business associated with statutory reserve changes and lower revenue in the marketing companies resulting from lower sales.

- Acquisitions segment operating income was $33.6 million and comparable to the three months ended March 31, 2008, primarily due to lower operating expenses on the Chase Insurance Group block and improved mortality results on the non-Chase business, partially offset by expected runoff of the blocks of business.

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- Annuities segment operating income decreased $3.1 million for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This change included a $17.2 million variance related to positive fair value changes, of which $5.9 million related to the equity indexed annuity product and $11.3 million related to embedded derivatives associated with the variable annuity GMWB rider. Offsetting this favorable change, an unfavorable DAC unlocking in the variable annuity line of business reduced earnings by $19.2 million in the first quarter of 2009. In addition, unfavorable mortality in the segment s single premium immediate annuity (SPIA) block reduced earnings in the first quarter of 2009 by $6.7 million, a $1.9 million unfavorable variance compared to the three months ended March 31, 2008. These decreases were partially offset by wider spreads and the continued growth of the single premium deferred annuity (SPDA) and market value adjusted (MVA) lines, which accounted for a $1.4 million and $1.7 million increase in earnings, respectively.

- Stable Value Products segment operating income was $20.2 million and increased $4.0 million, or 24.6%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The increase in operating earnings resulted from a higher operating spread due to lower liability costs, and was partially offset by a decline in average account values. In addition, $1.5 million in other income was generated from the early retirement of funding agreements backing medium-term notes. The operating spread increased 39 basis points to 165 basis points during the three months ended March 31, 2009, compared to an operating spread of 126 basis points for the three months ended March 31, 2008.

- Asset Protection segment operating income was $6.3 million, representing a decrease of $3.6 million, or 36.3%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Earnings from core product lines decreased $3.6 million, or 35.8%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Within the segment s core product lines, service contract earnings declined $2.9 million, or 36.9%, compared to the same period in the prior year. The service contract line was unfavorably impacted by weak auto and marine sales and higher loss ratios in certain product lines. Credit insurance earnings decreased $0.7 million, or 48.7%, compared to the prior year primarily due to a $0.6 million gain on the sale of a small insurance subsidiary and its related operations during the first quarter of 2008. Earnings from other products remained consistent period to period.

- Corporate and Other segment operating loss improved $20.7 million for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, primarily due to positive mark-to-market adjustments of $6.8 million on a $331.2 million portfolio of securities designated for trading, representing a $27.1 million more favorable impact than for the three months ended March 31, 2008. This increase was partially offset by lower net investment income resulting from reduced yields on a large balance of cash and short-term investments.

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Life Marketing

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2009	2008	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 375,658	$ 358,783	4.7%
Reinsurance ceded	(207,164)	(207,865)	(0.3)
Net premiums and policy fees	168,494	150,918	11.6
Net investment income	93,527	84,956	10.1
Other income	19,830	25,045	(20.8)
Total operating revenues	281,851	260,919	8.0
BENEFITS AND EXPENSES			
Benefits and settlement expenses	195,410	177,778	9.9
Amortization of deferred policy acquisition costs	35,728	26,923	32.7
Other operating expenses	8,203	9,769	(16.0)
Total benefits and expenses	239,341	214,470	11.6
OPERATING INCOME	42,510	46,449	(8.5)
INCOME BEFORE INCOME TAX	$ 42,510	$ 46,449	(8.5)

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

	For The Three Months Ended March 31, 2009	2008	Change
	(Dollars In Thousands)		
Sales By Product			
Traditional	$ 23,151	$ 27,008	(14.3)%
Universal life	12,819	14,663	(12.6)
Variable universal life	642	1,604	(60.0)
	$ 36,612	$ 43,275	(15.4)
Sales By Distribution Channel			
Brokerage general agents	$ 21,464	$ 24,396	(12.0)
Independent agents	7,280	8,852	(17.8)
Stockbrokers / banks	7,173	8,447	(15.1)
BOLI / other	695	1,580	(56.0)
	$ 36,612	$ 43,275	(15.4)
Average Life Insurance In-force(1)			
Traditional	$ 483,531,806	$ 464,731,437	4.0
Universal life	52,991,628	52,808,052	0.3
	$ 536,523,434	$ 517,539,489	3.7
Average Account Values			
Universal life	$ 5,352,302	$ 5,202,790	2.9
Variable universal life	236,712	337,578	(29.9)
	$ 5,589,014	$ 5,540,368	0.9
Traditional Life Mortality Experience(2)	$ 546	$ 2,210	
Universal Life Mortality Experience(2)	$ 1,486	$ 567	

(1) Amounts are not adjusted for reinsurance ceded.

(2) Represents the estimated pre-tax earnings impact resulting from mortality variances. We periodically review and update as appropriate our key assumptions in calculating mortality. Changes to these assumptions result in adjustments, which may increase or decrease previously reported mortality amounts. Excludes results related to the Chase Insurance Group, which was acquired in the third quarter of 2006 and excludes results related to the bank-owned life insurance product line.

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Operating expenses detail

Certain reclassifications have been made in the previously reported amounts to make the prior period amounts comparable to those of the current period. Such reclassifications had no effect on previously reported total operating expenses. Other operating expenses for the segment were as follows:

	For The Three Months Ended March 31,		
	2009	**2008**	**Change**
	(Dollars In Thousands)		
Insurance Companies:			
First year commissions	$ 42,376	$ 53,512	(20.8)%
Renewal commissions	9,087	9,151	(0.7)
First year ceding allowances	(4,309)	(5,529)	(22.1)
Renewal ceding allowances	(51,044)	(54,134)	(5.7)
General & administrative	36,622	40,533	(9.6)
Taxes, licenses, and fees	7,301	7,063	3.4
Other operating expenses incurred	40,033	50,596	(20.9)
Less: commissions, allowances & expenses capitalized	(51,509)	(64,867)	(20.6)
Other insurance company operating expenses	(11,476)	(14,271)	(19.6)
Marketing Companies:			
Commissions	14,685	20,008	(26.6)
Other operating expenses	4,994	4,032	23.9
Other marketing company operating expenses	19,679	24,040	(18.1)
Other operating expenses	$ 8,203	$ 9,769	(16.0)

For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Segment operating income

Operating income was $42.5 million for the three months ended March 31, 2009, representing a decrease of $3.9 million, or 8.5%, from the three months ended March 31, 2008. The decrease was primarily due to less favorable mortality, lower allocated investment income on the traditional line of business associated with statutory reserve changes and lower revenue in the marketing companies resulting from lower sales.

Operating revenues

Total revenues for the three months ended March 31, 2009 increased $20.9 million, or 8.0%, compared to the three months ended March 31, 2008. This increase was the result of higher premiums and policy fees in the segment s traditional line and higher investment income due to increases in net in-force reserves, and was partially offset by lower other income due to lower sales in the segment s marketing companies.

Net premiums and policy fees

Net premiums and policy fees increased by $17.6 million, or 11.6%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to an increase in retention levels on certain traditional life products. Beginning in the third quarter of 2005, we reduced our reliance on reinsurance by changing from coinsurance to yearly renewable term reinsurance agreements and increased the maximum amount retained on any one life from $500,000 to $1,000,000 on certain of our newly written traditional life products (products written during the third quarter of 2005 and later). In addition to increasing net premiums, this change results in higher benefits and settlement expenses, and causes greater variability in financial results due to fluctuations in mortality results. Our maximum retention level for newly issued universal life products is generally $1,000,000. During 2008, we increased our retention limit to $2,000,000 on certain of our traditional and universal life products.

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Net investment income

Net investment income in the segment increased $8.6 million, or 10.1%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The increase reflects the growth related to universal life liabilities. A change in certain traditional products statutory reserving methods in the fourth quarter of 2008 reduced allocated investment income by approximately $2.2 million in the first quarter of 2009.

Other income

Other income decreased $5.2 million, or 20.8%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The decrease relates primarily to lower broker-dealer revenues compared to 2008 levels due to current negative market conditions.

Benefits and settlement expenses

Benefits and settlement expenses increased by $17.6 million, or 9.9%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, due to growth in retained life insurance in-force, increased retention levels on certain newly written traditional life products and higher credited interest on UL products resulting from increases in account values. The estimated mortality impact to earnings, related to traditional and universal life products, for the three months ended March 31, 2009 was favorable by $2.0 million, and was approximately $0.7 million less favorable than the estimated mortality impact on earnings for the three months ended March 31, 2008.

Amortization of DAC

DAC amortization increased $8.8 million, or 32.7%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The increase primarily relates to growth in retained life insurance in-force compared to 2008. We periodically review and update as appropriate our key assumptions on FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* (SFAS No. 97) products, including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization. The periodic review and updating of assumptions is referred to as unlocking .

Other operating expenses

Other operating expenses decreased $1.6 million, or 16.0%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This decrease reflects lower marketing company expenses associated with lower broker dealer sales, partly offset by higher expenses in the insurance companies due to lower renewal ceding allowances in the current quarter.

Sales

Sales for the segment decreased $6.7 million, or 15.4%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, due to a decline in sales across product lines. Lower sales levels of traditional products were primarily the result of pricing changes implemented on certain of our products at the beginning of 2008 and less favorable market conditions. Universal life sales declined $1.8 million, or 12.6%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to competitive pressures in all channels and less favorable market conditions. In addition, variable universal life sales were subject to unfavorable market conditions and were $1.0 million lower for the three months ended March 31, 2009 compared to the three months ended March 31, 2008.

Reinsurance

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

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expenses. As the non-deferred portion of allowances reduces operating expenses in the period received, these amounts represent a net increase to operating income during that period.

Reinsurance allowances do not affect the methodology used to amortize DAC or the period over which such DAC is amortized. However, they do affect the amounts recognized as DAC amortization. DAC on SFAS No. 97 business is amortized based on the estimated gross profits of the policies in-force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore impact SFAS No. 97 DAC amortization. Deferred reinsurance allowances on FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* (SFAS No. 60) business are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in force. Thus, deferred reinsurance allowances on SFAS No. 60 policies impact SFAS No. 60 DAC amortization.

Impact of reinsurance

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

	For The Three Months Ended March 31,	
	2009	**2008**
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$ (207,164)	$ (207,865)
BENEFITS AND EXPENSES		
Benefit and settlement expenses	(218,639)	(240,943)
Amortization of deferred policy acquisition costs	(12,392)	(8,378)
Other operating expenses (1)	(32,211)	(33,647)
Total benefits and expenses	(263,342)	(282,968)
NET IMPACT OF REINSURANCE (2)	$ 56,078	$ 75,103
Allowances received	$ (55,353)	$ (59,663)
Less: Amount deferred	23,142	26,016
Allowances recognized (ceded other operating expenses) (1)	$ (32,211)	$ (33,647)

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

(2) Assumes no investment income on reinsurance. Foregone investment income would substantially reduce the favorable impact of reinsurance. We estimate that the impact of foregone investment income would reduce the net impact of reinsurance by 80% to 130%.

The table above does not reflect the impact of reinsurance on our net investment income. By ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming companies profitability on the business we cede. The net investment income impact to us and the assuming

companies has not been quantified. The impact of including foregone investment income would be to substantially reduce the favorable net impact of reinsurance reflected above. We estimate that the impact of foregone investment income would be to reduce the net impact of reinsurance presented in the table above by 80% to 130%. The Life Marketing segment s reinsurance programs do not materially impact the other income line of our income statement.

As shown above, reinsurance had a favorable impact on the Life Marketing segment s operating income for the periods presented above. The impact of reinsurance is largely due to our quota share coinsurance program in place prior to mid-2005. Under that program, generally 90% of the segment s traditional new business was ceded to reinsurers. Since mid-2005, a much smaller percentage of overall term business was ceded due to our change in reinsurance strategy on traditional business discussed previously. As a result of that change, the relative impact of reinsurance on the Life Marketing segment s overall results is expected to decrease over time. While the significance of reinsurance is expected to decline over time, the overall impact of reinsurance for a given period may fluctuate due to variations in mortality and unlocking of balances under SFAS No. 97.

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For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Premiums and policy fees ceded had been rising over a number of years with increases in our in-force blocks of traditional and universal life business. Beginning in mid-2005, we changed our reinsurance approach in our traditional life product lines. Instead of generally ceding 90% of new business issued before that date, we began purchasing yearly renewable term on risks in excess of $1 million (now increased to $2 million). This had the effect of reducing reinsurance on new policies issued. The decrease in ceded premiums above for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, was caused primarily by lower ceded traditional life premiums and policy fees of $3.2 million.

Ceded benefits and settlement expenses were lower for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, due to lower increases in ceded reserves and decreased ceded claims. Traditional ceded benefits decreased $8.2 million for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, as a smaller increase in ceded reserves more than offset higher ceded death benefits. Universal life ceded benefits decreased $16.3 million for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 due to lower ceded claims offsetting a higher change in ceded reserves associated with growth in the business. Ceded universal life claims were $19.3 million lower for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Ceded benefits and settlement expenses will fluctuate over time, largely as a function of the segment s overall variations in death benefits incurred.

Ceded amortization of deferred policy acquisitions costs increased for the three months ended March 31, 2009 compared to the same period in 2008. This was primarily due to an increase in ceded universal life amortization due to less unlocking in the first quarter of 2009 associated with lower claims volume compared to the first quarter of 2008.

Ceded other operating expenses are based on allowances received from reinsurers. Total allowances received for the three months ended March 31, 2009 decreased slightly from the three months ended March 31, 2008 due to decreases associated with lower sales in the universal life line and decreases associated with the change in our term life reinsurance strategy. Term allowances have decreased since mid-2005 as new YRT reinsurance replaces the 90% coinsured business.

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Acquisitions

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2009	2008	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 178,676	$ 191,492	(6.7)%
Reinsurance ceded	(109,607)	(115,763)	(5.3)
Net premiums and policy fees	69,069	75,729	(8.8)
Net investment income	123,541	136,213	(9.3)
Other income	1,403	1,421	(1.3)
Total operating revenues	194,013	213,363	(9.1)
Realized gains (losses) - investments	(52,463)	(36,318)	
Realized gains (losses) - derivatives	57,684	28,590	
Total revenues	199,234	205,635	
BENEFITS AND EXPENSES			
Benefits and settlement expenses	138,731	154,420	(10.2)
Amortization of deferred policy acquisition costs and value of business acquired	17,563	18,502	(5.1)
Other operating expenses	4,098	6,865	(40.3)
Operating benefits and expenses	160,392	179,787	(10.8)
Amortization of DAC / VOBA related to realized gains (losses) - investments	178	1,094	
Total benefits and expenses	160,570	180,881	(11.2)
INCOME BEFORE INCOME TAX	38,664	24,754	56.2
Less: realized gains (losses)	5,221	(7,728)	
Less: related amortization of DAC	(178)	(1,094)	
OPERATING INCOME	$ 33,621	$ 33,576	0.1

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The following table summarizes key data for the Acquisitions segment:

	For The Three Months Ended March 31,		
	2009	2008	Change
	(Dollars In Thousands)		
Average Life Insurance In-Force(1)			
Traditional	$ 202,610,702	$ 215,226,812	(5.9)%
Universal life	28,958,227	30,833,910	(6.1)
	$ 231,568,929	$ 246,060,722	(5.9)
Average Account Values			
Universal life	$ 2,864,653	$ 2,976,419	(3.8)
Fixed annuity(2)	3,929,214	4,690,136	(16.2)
Variable annuity	125,655	194,185	(35.3)
	$ 6,919,522	$ 7,860,740	(12.0)
Interest Spread - UL & Fixed Annuities			
Net investment income yield(4)	6.02%	6.01%	
Interest credited to policyholders	4.16	4.08	
Interest spread	1.86%	1.93%	
Mortality Experience(3)	$ 1,636	$ (148)	

(1) Amounts are not adjusted for reinsurance ceded.

(2) Includes general account balances held within variable annuity products and is net of coinsurance ceded.

(3) Represents the estimated pre-tax earnings impact resulting from mortality variance to pricing. Excludes results related to the Chase Insurance Group, which was acquired in the third quarter of 2006.

(4) Includes available-for-sale and trading portfolios. Available-for-sale portfolio yields were 6.37%, and 6.29% respectively, for the three months ended March 31, 2009 and 2008.

For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Segment operating income

Operating income was $33.6 million for the three months ended March 31, 2009 and comparable to the three months ended March 31, 2008, primarily due to lower operating expenses on the Chase Insurance Group block and improved mortality results on the non-Chase business, partially offset by expected runoff of the blocks of business.

Revenues

Net premiums and policy fees decreased $6.7 million, or 8.8%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to the runoff of the in-force business. Net investment income decreased $12.7 million, or 9.3%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to a decline in annuity account values in the Chase Insurance Group block, resulting in a reduction of invested assets and lower investment income.

Benefits and expenses

Total benefits and expenses decreased $20.3 million, or 11.2%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The decrease related primarily to the expected runoff of the in-force business (particularly the Chase insurance group), fluctuations in mortality, and lower operating expenses.

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Reinsurance

The Acquisitions segment currently reinsures portions of both its life and annuity in-force. The cost of reinsurance to the segment is reflected in the chart shown below:

Impact of reinsurance

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

Acquisitions Segment

Line Item Impact of Reinsurance

	For The Three Months Ended March 31,	
	2009	2008
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$ (109,607)	$ (115,763)
BENEFITS AND EXPENSES		
Benefit and settlement expenses	(92,222)	(109,264)
Amortization of deferred policy acquisition costs	(5,781)	(7,584)
Other operating expenses	(14,959)	(17,394)
Total benefits and expenses	(112,962)	(134,242)
NET IMPACT OF REINSURANCE	$ 3,355	$ 18,479

The segment s reinsurance programs do not materially impact the other income line of the income statement. In addition, net investment income generally has no direct impact on reinsurance cost. However, it should be noted that by ceding business to the assuming companies, we forgo investment income on the reserves ceded to the assuming companies. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming companies profitability on business assumed from the Company. For business ceded under modified coinsurance arrangements, the amount of investment income attributable to the assuming company is included as part of the overall change in policy reserves and, as such, is reflected in benefit and settlement expenses. The net investment income impact to us and the assuming companies has not been quantified as it is not fully reflected in our consolidated financial statements.

The net impact of reinsurance decreased $15.1 million, or 81.8%, for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, as a result of fluctuations in ceded claim volume, amortization of deferred acquisition costs related to the claim fluctuations, and expenses ceded to reinsurers involved with the Chase Insurance Group acquisition.

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Annuities

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2009	For The Three Months Ended March 31, 2008	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 10,985	$ 8,191	34.1%
Reinsurance ceded	(42)		n/m
Net premiums and policy fees	10,943	8,191	33.6
Net investment income	102,982	77,286	33.2
Realized gains (losses) - derivatives	19,088	(6,240)	n/m
Other income	3,380	3,003	12.6
Total operating revenues	136,393	82,240	65.8
Realized gains (losses) - investments	(6,448)	20	
Total revenues	129,945	82,260	58.0
BENEFITS AND EXPENSES			
Benefits and settlement expenses	85,808	67,416	27.3
Amortization of deferred policy acquisition costs and value of business acquired	45,185	5,921	n/m
Other operating expenses	5,975	6,414	(6.8)
Operating benefits and expenses	136,968	79,751	71.7
Amortization of DAC / VOBA related to realized gains (losses) - investments	(100)	(20)	
Total benefits and expenses	136,868	79,731	71.7
INCOME (LOSS) BEFORE INCOME TAX	(6,923)	2,529	n/m
Less: realized gains (losses)	(6,448)	20	
Less: related amortization of DAC	100	20	
OPERATING INCOME (LOSS)	$ (575)	$ 2,489	n/m

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The following table summarizes key data for the Annuities segment:

	For The Three Months Ended March 31, 2009	2008	Change
	(Dollars In Thousands)		
Sales			
Fixed annuity	$ 297,680	$ 519,248	(42.7)%
Variable annuity	139,056	92,792	49.9
	$ 436,736	$ 612,040	(28.6)
Average Account Values			
Fixed annuity(1)	$ 6,682,367	$ 5,064,052	32.0
Variable annuity	1,764,353	2,566,985	(31.3)
	$ 8,446,720	$ 7,631,037	10.7
Interest Spread - Fixed Annuities(2)			
Net investment income yield	6.13%	6.06%	
Interest credited to policyholders	4.91	4.97	
Interest spread	1.22%	1.09%	

	As of March 31, 2009	2008	Change
GMDB - Net amount at risk(3)	$ 903,345	$ 247,107	n/m%
GMDB Reserves	10,864		n/m
GMWB Reserves	13,609	3,318	n/m
Account value subject to GMWB rider	434,063	156,229	n/m
S&P 500® Index	798	1,323	(39.7)

(1) Includes general account balances held within variable annuity products.

(2) Interest spread on average general account values.

(3) Guaranteed death benefits in excess of contract holder account balance.

For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Segment operating income (loss)

Annuities segment operating income decreased $3.1 million for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This change included a favorable $17.2 million variance related to fair value changes, of which $5.9 million related to the equity indexed annuity product and $11.3 million related to embedded derivatives associated with the variable annuity GMWB rider. Offsetting this favorable change, an unfavorable DAC unlocking in the variable annuity line of business reduced earnings by $19.2 million in the first quarter of 2009. In addition, unfavorable mortality in the segment s SPIA block reduced earnings in the first quarter of 2009 by $6.7 million, a $1.9 million unfavorable variance compared to the three months ended March 31, 2008. These decreases were partially offset by wider spreads and the continued growth of the SPDA and MVA lines, which accounted for a $1.4 million and $1.7 million increase in earnings, respectively.

Operating revenues

Segment operating revenues increased $54.2 million, or 65.8%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to an increase in net investment income, policy fee revenue and the positive fair value changes on the variable annuity line mentioned above. Average account balances grew 10.7% for the three months ended March 31, 2009, resulting in higher investment income. The additional income resulting from the larger account balances was partially reduced for the three months ended March 31, 2009 by losses on derivatives. The segment continually monitors and adjusts credited rates as appropriate in an effort to maintain and/or improve its interest spread.

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Benefits and settlement expenses

Operating benefits and expenses increased $57.2 million, or 71.7%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This increase was primarily the result of higher credited interest and increased death benefit reserves.

Amortization of DAC

The increase in DAC amortization (not related to realized capital gains and losses) for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 was primarily due to fair value gains and unlocking on the variable annuity line and increased policy fee revenue on the MVA line. We periodically review and update as appropriate our key assumptions including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization. The periodic review and updating of assumptions is referred to as unlocking . DAC amortization for the Annuities segment increased by $39.3 million primarily due to positive fair value changes in the variable annuity line, which resulted in an unfavorable change in DAC amortization of $32.6 million. Unfavorable DAC amortization of $5.3 million was recorded in the MVA line as a result of increased policy fee revenue.

Sales

Total sales decreased $175.3 million, or 28.6%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Sales of fixed annuities decreased $221.6 million, or 42.7%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The decrease in fixed annuity sales was driven by reduced sales in the SPDA, MVA, and immediate annuity lines. The decrease in SPDA and MVA sales was attributable to a lower interest rate environment. Immediate annuity sales decreased $199.7 million, or 88.5% for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, due to certain one-time institutional sales that occurred in the first quarter of 2008. Sales of variable annuities increased $46.3 million, or 49.9%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to dislocation of some core competitors and improved sales management efforts.

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Stable Value Products

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2009	2008	Change
	(Dollars In Thousands)		
REVENUES			
Net investment income	$ 63,176	$ 78,361	(19.4)%
Other income	1,526		n/m
Realized gains (losses)	1,862	5,433	(65.7)
Total revenues	66,564	83,794	(20.6)
BENEFITS AND EXPENSES			
Benefits and settlement expenses	42,585	59,929	(28.9)
Amortization of deferred policy acquisition costs	927	1,067	(13.1)
Other operating expenses	983	1,149	(14.4)
Total benefits and expenses	44,495	62,145	(28.4)
INCOME BEFORE INCOME TAX	22,069	21,649	1.9
Less: realized gains (losses)	1,862	5,433	
OPERATING INCOME	$ 20,207	$ 16,216	24.6

The following table summarizes key data for the Stable Value Products segment:

	For The Three Months Ended March 31, 2009	2008	Change
	(Dollars In Thousands)		
Sales			
GIC	$	$ 74,232	n/m%
GFA - Direct Institutional			n/m
GFA - Registered Notes - Institutional		450,000	n/m
GFA - Registered Notes - Retail		113,404	n/m
	$	$ 637,636	n/m
Average Account Values	$ 4,523,563	$ 5,140,310	(12.0)
Operating Spread			
Net investment income yield	5.58%	6.10%	
Interest credited	3.76	4.67	
Operating expenses	0.17	0.17	

Operating spread	1.65%(1)	1.26%

(1) Excludes one-time funding agreement retirement gains.

For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Segment operating income

Operating income increased $4.0 million, or 24.6%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The increase in operating earnings resulted from a higher operating spread due to lower liability costs, and was partially offset by a decline in average account values. In addition, $1.5 million in other income was generated from the early retirement of funding agreements backing medium-term notes. The operating spread increased 39 basis points to 165 basis points during the three months ended March 31, 2009, compared to an operating spread of 126 basis points during the three months ended March 31, 2008.

There were no sales for the three months ended March 31, 2009 compared to $637.6 million for the three months ended March 31, 2008.

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Asset Protection

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2009	2008	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 86,935	$ 95,335	(8.8)%
Reinsurance ceded	(41,485)	(47,443)	(12.6)
Net premiums and policy fees	45,450	47,892	(5.1)
Net investment income	8,932	9,905	(9.8)
Other income	12,473	15,136	(17.6)
Total operating revenues	66,855	72,933	(8.3)
BENEFITS AND EXPENSES			
Benefits and settlement expenses	34,110	24,766	37.7
Amortization of deferred policy acquisition costs	13,683	14,332	(4.5)
Other operating expenses	12,782	23,983	(46.7)
Total benefits and expenses	60,575	63,081	(4.0)
INCOME BEFORE INCOME TAX	6,280	9,852	(36.3)
OPERATING INCOME	$ 6,280	$ 9,852	(36.3)

The following table summarizes key data for the Asset Protection segment.

	For The Three Months Ended March 31, 2009	2008	Change
	(Dollars In Thousands)		
Sales			
Credit insurance	$ 8,483	$ 22,790	(62.8)%
Service contracts	48,076	71,663	(32.9)
Other products	11,781	16,262	(27.6)
	$ 68,340	$ 110,715	(38.3)
Loss Ratios (1)			
Credit insurance	32.1%	35.9%	
Service contracts	74.6	65.0	
Other products	97.3	32.6	

(1) Incurred claims as a percentage of earned premiums

For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Segment operating income

Operating income was $6.3 million, representing a decrease of $3.6 million, or 36.3%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Earnings from core product lines decreased $3.6 million, or 35.8%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Within the segment s core product lines, service contract earnings declined $2.9 million, or 36.9%, compared to the same period in the prior year. The service contract line was unfavorably impacted by weak auto and marine sales and higher loss ratios in certain product lines. Credit insurance earnings decreased $0.7 million, or 48.7%, compared to the prior year primarily due to a $0.6 million gain on the sale of a small insurance subsidiary and its related operations during the first quarter of 2008. Earnings from other products remained consistent period to period.

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Net premiums and policy fees

Net premiums and policy fees decreased $2.4 million, or 5.1%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Credit insurance premiums decreased $1.5 million, or 19.3%, due to lower auto sales. Net premiums in the service contract line decreased $1.1 million, or 4.2%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, resulting from weak auto sales. Within the other product lines, net premiums increased $0.2 million, or 1.7%, compared to the prior year due to an increase in the GAP product line.

Other income

Other income decreased $2.7 million, or 17.6%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to a decline in service contract volume.

Benefits and settlement expenses

Benefits and settlement expenses increased $9.3 million, or 37.7%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Credit insurance claims for the three months ended March 31, 2009 compared to the prior year decreased $0.8 million, or 27.9%, due to lower volume and improved loss ratios. Service contract claims increased $1.8 million, or 10.1%, due to higher loss ratios in some product lines. Other products claims increased $8.3 million, which was primarily due to a $6.3 million increase in the runoff Lender s Indemnity product line s loss reserve related to the commutation of a reinsurance agreement in the first quarter of 2009.

Amortization of DAC and Other Operating Expenses

Amortization of DAC was $0.6 million, or 4.5%, lower for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, mainly due to lower premiums in the credit insurance and service contract lines. Other operating expenses decreased $11.2 million, or 46.7%, for the three months ended March 31, 2009 due to lower commission expense resulting from the decline in sales and a $6.3 million bad debt recovery in the runoff Lender s Indemnity product line as a result of the commutation of a reinsurance agreement in the first quarter of 2009.

Sales

Total segment sales decreased $42.4 million, or 38.3%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The decreases in credit insurance and service contract sales were primarily due to declines in auto and marine sales. The decline in the other products line was primarily the result of lower GAP sales, also due to the overall decline in auto sales.

Reinsurance

The majority of the Asset Protection segment s reinsurance activity relates to the cession of single premium credit life and credit accident and health insurance, credit property, vehicle service contracts and guaranteed asset protection insurance to producer affiliated reinsurance companies (PARC s). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis at levels ranging from 50% to 100% to limit our exposure and allow the PARC s to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. Failure of reinsurers to honor their obligations could result in losses to us or our affiliates.

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Reinsurance impacted the Asset Protection segment line items as shown in the following table:

Asset Protection Segment

Line Item Impact of Reinsurance

	For The Three Months Ended March 31, 2009	2008
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$ (41,485)	$ (47,443)
BENEFITS AND EXPENSES		
Benefit and settlement expenses	(21,378)	(20,746)
Amortization of deferred policy acquisition costs	(5,494)	(9,852)
Other operating expenses	(8,484)	(1,756)
Total benefits and expenses	(35,356)	(32,354)
NET IMPACT OF REINSURANCE	$ (6,129)	$ (15,089)

For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Reinsurance premiums ceded decreased $6.0 million, or 12.6%, for the three months ended March 31, 2009, compared to the three months ended March 31, 2008. The decrease was primarily due to the discontinuation of marketing credit insurance products through financial institutions in 2005, in which a majority of this business was ceded to PARC s, partially offset by an increase in ceded premiums in the service contract and GAP lines. Ceded unearned premium reserves and claim reserves with PARC s are generally secured by trust accounts, letters of credit or on a funds withheld basis.

Benefits and settlement expenses ceded increased $0.6 million, or 3.0%, for the three months ended March 31, 2009, compared to the three months ended March 31, 2008. The increase was mainly due to increases in losses ceded in the service contract line, partially offset by favorable loss experience in the dealer credit insurance line.

Amortization of DAC ceded decreased $4.4 million for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, mainly as the result of the decreases in the credit insurance products sold through financial institutions. Other operating expenses ceded increased $6.7 million for the three months ended March 31, 2009, compared to the three months ended March 31, 2008. The fluctuation was mainly attributable to the commutation of the reinsurance agreement related to the Lender s Indemnity program which is in runoff.

Net investment income has no direct impact on reinsurance cost. However, it should be noted that by ceding business to the assuming companies, we forgo investment income on the reserves ceded to the assuming companies. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming companies profitability on business. The net investment income

impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated financial statements.

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Corporate and Other

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2009	For The Three Months Ended March 31, 2008	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 6,898	$ 8,603	(19.8)%
Reinsurance ceded	(1)	(1)	0.0
Net premiums and policy fees	6,897	8,602	(19.8)
Net investment income	29,527	21,744	35.8
Realized gains (losses) - investments			
Realized gains (losses) - derivatives	2,238	484	
Other income	51	904	(94.4)
Total operating revenues	38,713	31,734	22.0
Realized gains (losses) - investments	(73,913)	3,040	
Realized gains (losses) - derivatives	12,716	(24,711)	
Total revenues	(22,484)	10,063	n/m
BENEFITS AND EXPENSES			
Benefits and settlement expenses	7,715	10,367	(25.6)
Amortization of deferred policy acquisition costs	484	551	(12.2)
Other operating expenses	39,761	50,789	(21.7)
Total benefits and expenses	47,960	61,707	(22.3)
INCOME (LOSS) BEFORE INCOME TAX	(70,444)	(51,644)	36.4
Less: realized gains (losses) - investments	(73,913)	3,040	
Less: realized gains (losses) - derivatives	12,716	(24,711)	
OPERATING INCOME (LOSS)	$ (9,247)	$ (29,973)	(69.1)

For The Three Months Ended March 31, 2009 compared to The Three Months Ended March 31, 2008

Segment operating income (loss)

The Corporate and Other segment operating loss improved $20.7 million for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, primarily due to positive mark-to-market adjustments of $6.8 million on a $331.2 million portfolio of securities designated for trading, representing a $27.1 million more favorable impact than for the three months ended March 31, 2008. This increase was partially offset by lower net investment income resulting from reduced yields on a large balance of cash and short-term investments.

Operating revenues

Operating revenues for the Corporate and Other segment are primarily comprised of net investment income on capital and net premiums and policy fees related to several non-strategic lines of business. Net investment income for the segment increased $7.8 million, or 35.8%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, and net premiums and policy fees declined $1.7 million, or 19.8%. The increase in net investment income was primarily the result of mark-to-market changes on the trading portfolio, partially offset by a reduction in yields on a large balance of cash and short-term investments.

Benefits and expenses

Benefits and expenses decreased $13.7 million, or 22.3%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to a reduction of operating expenses and a reduction in policy benefits on non-core lines of business.

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CONSOLIDATED INVESTMENTS

Portfolio Description

As of March 31, 2009, our investment portfolio was approximately $25.8 billion. The types of assets in which we may invest are influenced by various state laws which prescribe qualified investment assets. Within the parameters of these laws, we invest in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure.

The following table includes the reported values of our invested assets:

	As of			
	March 31, 2009		December 31, 2008	
	(Dollars In Thousands)			
Publicly-issued bonds (amortized cost: 2009 - $18,416,969; 2008 - $18,880,847)	$ 16,053,759	62.2%	$ 16,554,695	62.3%
Privately issued bonds (amortized cost: 2009 - $4,185,871; 2008 - $4,210,825)	3,518,039	13.6	3,544,285	13.3
Redeemable preferred stock (amortized cost: 2009 - $36; 2008 - $36)		0.0		0.0
Fixed maturities	19,571,798	75.8	20,098,980	75.6
Equity securities (cost: 2009 - $335,370; 2008 - $358,159)	268,211	1.0	302,132	1.1
Mortgage loans	3,858,573	15.0	3,848,288	14.5
Investment real estate	14,769	0.0	14,810	0.1
Policy loans	800,617	3.1	810,933	3.1
Other long-term investments	451,847	1.8	432,137	1.6
Short-term investments	845,558	3.3	1,059,506	4.0
Total investments	$ 25,811,373	100.0%	$ 26,566,786	100.0%

Included in the preceding table are $3.1 billion and $3.2 billion of fixed maturities and $125.4 million and $80.4 million of short-term investments classified as trading securities as of March 31, 2009 and December 31, 2008, respectively. The trading portfolio includes invested assets of $2.7 billion and $2.9 billion as of March 31, 2009 and December 31, 2008, respectively, held pursuant to Modco arrangements under which the economic risks and benefits of the investments are passed to third-party reinsurers.

Fixed Maturity Investments

As of March 31, 2009, our fixed maturity investment holdings were approximately $19.6 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

Rating	As of March 31, 2009	December 31, 2008
AAA	33.7%	35.2%
AA	6.1	6.6
A	19.0	19.8
BBB	33.6	33.0
Below investment grade	7.6	5.4
	100.0%	100.0%

Declines in fair value, net of related DAC and VOBA, are charged or credited directly to shareowners equity. Declines in fair value that are other-than-temporary are recorded as realized losses in the Consolidated Condensed Statements of Income, net of the non-credit component of the loss, which is recorded as an adjustment to other comprehensive income. The increase in BBB and below investment grade assets, as shown in the preceding table, is primarily a result of ratings downgrades related to our corporate credit and residential mortgage-backed securities holdings.

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The distribution of our fixed maturity investments by type is as follows:

Type	As of March 31, 2009	As of December 31, 2008
	(Dollars In Millions)	
Corporate Bonds	$ 12,042.8	$ 12,306.3
Residential Mortgage-Backed Securities	4,731.9	4,960.2
Commercial Mortgage-Backed Securities	1,164.2	1,184.9
Asset-Backed Securities	1,175.2	1,132.7
US Govt Bonds	427.5	484.9
States, Municipals and Political Subdivisions	30.2	30.0
Preferred Securities		
Convertibles and Bonds with Warrants		
Total Fixed Income Portfolio	$ 19,571.8	$ 20,099.0

Our portfolio consists primarily of fixed maturity securities (bonds and redeemable preferred stocks) and commercial mortgage loans. Within our fixed maturity securities, we maintain portfolios classified as available-for-sale and trading . We purchase our investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, we may sell any of our investments to maintain proper matching of assets and liabilities. Accordingly, we classified $16.5 billion or 84.4% of our fixed maturities as available-for-sale as of March 31, 2009. These securities are carried at fair value on our Consolidated Condensed Balance Sheets.

Our trading portfolio accounts for $3.1 billion, or 15.6%, of our fixed maturities as of March 31, 2009. Of this balance, fixed maturities with a market value of $2.7 billion and short-term investments with a market value of $125.4 million were added as part of the Chase Insurance Group acquisition. Investment results for the Chase Insurance Group portfolios, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. The total Modco trading portfolio fixed maturities by rating is as follows:

	As of March 31, 2009	As of December 31, 2008
	(Dollars In Thousands)	
AAA	$ 1,079,040	$ 1,357,132
AA	134,080	147,305
A	563,551	591,482
BBB	837,231	743,529
Below investment grade	112,116	55,607
Total Modco trading fixed maturities	$ 2,726,018	$ 2,895,055

A portion of our bond portfolio is invested in residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. These holdings as of March 31, 2009 were approximately $7.1 billion. Mortgage-backed securities are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates. In addition, we have entered into derivative contracts at times to partially offset the volatility in the market value of these securities.

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Residential mortgage-backed securities - The tables below include a breakdown of our residential mortgage-backed securities portfolio by type and rating as of March 31, 2009. As of March 31, 2009, these holdings were approximately $4.7 billion. Planned amortization class securities (PACs) pay down according to a schedule. Sequentials receive payments in order until each class is paid off. Pass through securities receive principal as principal of the underlying mortgages is received.

Type	Percentage of Residential Mortgage-Backed Securities
Sequential	68.2%
PAC	14.6
Pass Through	4.0
Other	13.2
	100.0%

Rating	Percentage of Residential Mortgage-Backed Securities
AAA	77.3%
AA	1.7
A	3.1
BBB	6.3
Below investment grade	11.6
	100.0%

As of March 31, 2009, we held $496.4 million, or 1.9% of invested assets, of securities supported by collateral classified as Alt-A. As of December 31, 2008, we held securities with a market value of $543.5 million of securities supported by collateral classified as Alt-A.

The following table includes the percentage of our collateral classified as Alt-A grouped by rating category as of March 31, 2009:

Rating	Percentage of Alt-A Securities
AAA	33.8%
A	2.2
BBB	7.0
Below investment grade	57.0
	100.0%

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The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by Alt-A mortgage loans by rating as of March 31, 2009:

Alt-A Collateralized Holdings

Estimated Fair Value of Security by Year of Security Origination

Rating	2005 and Prior	2006	2007	2008	2009	Total
			(Dollars In Millions)			
AAA	$ 26.7	$ 70.6	$ 70.6	$	$	$ 167.9
AA						
A	10.8					10.8
BBB	34.6					34.6
Below investment grade	5.7	162.5	114.9			283.1
Total mortgage-backed securities collateralized by Alt-A mortgage loans	$ 77.8	$ 233.1	$ 185.5	$	$	$ 496.4

Estimated Unrealized Gain (Loss) of Security by Year of Security Origination

Rating	2005 and Prior	2006	2007	2008	2009	Total
			(Dollars In Millions)			
AAA	$ (4.4)	$ (11.0)	$ (11.0)	$	$	$ (26.4)
AA						
A	(3.5)					(3.5)
BBB	(7.3)					(7.3)
Below investment grade	(4.4)	(88.1)	(59.4)			(151.9)
Total mortgage-backed securities collateralized by Alt-A mortgage loans	$ (19.6)	$ (99.1)	$ (70.4)	$	$	$ (189.1)

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As of March 31, 2009, we had residential mortgage-backed securities with a total fair market value of $39.9 million, or 0.2% of total invested assets, that were supported by collateral classified as sub-prime. As of December 31, 2008, we held securities with a fair market value of $46.6 million of securities supported by collateral classified as sub-prime. The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by sub-prime mortgage loans by rating as of March 31, 2009:

Sub-prime Collateralized Holdings

Estimated Fair Value of Security by Year of Security Origination

Rating	2005 and Prior	2006	2007	2008	2009	Total
			(Dollars In Millions)			
AAA	$ 3.4	$	$	$	$	$ 3.4
AA	0.9	1.5	3.3			5.7
A		6.1				6.1
BBB	0.1	5.2	3.0			8.3
Below investment grade	1.2	8.8	6.4			16.4
Total mortgage-backed securities collateralized by sub-prime mortgage loans	$ 5.6	$ 21.6	$ 12.7	$	$	$ 39.9

Estimated Unrealized Gain (Loss) of Security by Year of Security Origination

Rating	2005 and Prior	2006	2007	2008	2009	Total
			(Dollars In Millions)			
AAA	$ (1.1)	$	$	$	$	$ (1.1)
AA	(0.7)	(0.4)	(6.8)			