

PROTECTIVE LIFE CORP
Form 10-Q
August 05, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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)

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Delaware

(State or other jurisdiction of incorporation or organization)

95-2492236

(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 No

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 No

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

Accelerated Filer

Non-accelerated filer

Smaller Reporting Company

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

Number of shares of Common Stock, \$0.50 Par Value, outstanding as of July 30, 2010: 85,662,493

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PROTECTIVE LIFE CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED JUNE 30, 2010

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
(Dollars In Thousands, Except Per Share Amounts)				
Revenues				
Premiums and policy fees	\$ 679,241	\$ 679,989	\$ 1,308,013	\$ 1,339,141
Reinsurance ceded	(379,729)	(394,225)	(685,558)	(752,524)
Net of reinsurance ceded	299,512	285,764	622,455	586,617
Net investment income	422,500	431,144	834,497	852,829
Realized investment gains (losses):				
Derivative financial instruments	(119,888)	(97,991)	(142,960)	(5,558)
All other investments	67,704	167,799	115,603	125,956
Other-than-temporary impairment losses	(36,683)	(48,877)	(58,539)	(166,191)
Portion of loss recognized in other comprehensive income (before taxes)	19,885	7,906	29,872	35,394
Net impairment losses recognized in earnings	(16,798)	(40,971)	(28,667)	(130,797)
Other income	59,072	39,586	102,944	78,249
Total revenues	712,102	785,331	1,503,872	1,507,296
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2010 - \$359,766; 2009 - \$371,234 six months: 2010 - \$662,467; 2009 - \$705,928)	525,371	478,148	1,032,666	982,507
Amortization of deferred policy acquisition costs and value of business acquired	23,086	89,949	104,375	203,597
Other operating expenses, net of reinsurance ceded: (three months: 2010 - \$50,657; 2009 - \$51,963 six months: 2010 - \$94,081; 2009 - \$107,028)	99,185	77,016	201,095	148,818
Total benefits and expenses	647,642	645,113	1,338,136	1,334,922
Income before income tax	64,460	140,218	165,736	172,374
Income tax expense	23,216	49,461	54,786	59,482
Net income	41,244	90,757	110,950	112,892
Less: Net income (loss) attributable to noncontrolling interests	(127)		(200)	
Net income available to PLC s common shareowners(1)	\$ 41,371	\$ 90,757	\$ 111,150	\$ 112,892
Net income available to PLC s common shareowners - basic	\$ 0.48	\$ 1.17	\$ 1.28	\$ 1.52
Net income available to PLC s common shareowners - diluted	\$ 0.47	\$ 1.16	\$ 1.27	\$ 1.51
Cash dividends paid per share	\$ 0.14	\$ 0.12	\$ 0.26	\$ 0.24
Average shares outstanding - basic	86,562,379	77,893,480	86,531,461	74,391,481
Average shares outstanding - diluted	87,666,035	78,528,511	87,609,027	74,980,036

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(1) Protective Life Corporation (PLC)

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	June 30, 2010	As of December 31, 2009
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2010 - \$23,181,206; 2009 - \$23,228,317)	\$ 23,687,528	\$ 22,830,427
Equity securities, at fair value (cost: 2010 - \$324,815; 2009 - \$280,615)	308,951	275,497
Mortgage loans (2010 includes: \$969,210 related to securitizations)	4,905,276	3,877,087
Investment real estate, net of accumulated depreciation (2010 - \$980; 2009 - \$803)	22,431	25,188
Policy loans	775,105	794,276
Other long-term investments	182,075	204,754
Short-term investments	972,804	1,049,609
Total investments	30,854,170	29,056,838
Cash	156,524	205,325
Accrued investment income	303,916	285,350
Accounts and premiums receivable, net of allowance for uncollectible amounts (2010 - \$4,735; 2009 - \$5,170)	38,817	56,216
Reinsurance receivables	5,553,385	5,333,401
Deferred policy acquisition costs and value of business acquired	3,671,153	3,663,350
Goodwill	116,307	117,856
Property and equipment, net of accumulated depreciation (2010 - \$127,253; 2009 - \$123,709)	37,831	37,037
Other assets	188,862	176,303
Income tax receivable	43,609	115,447
Assets related to separate accounts		
Variable annuity	3,307,239	2,948,457
Variable universal life	304,423	316,007
Total Assets	\$ 44,576,236	\$ 42,311,587
Liabilities		
Policy liabilities and accruals	\$ 18,938,066	\$ 18,548,267
Stable value product account balances	3,487,963	3,581,150
Annuity account balances	10,309,546	9,911,040
Other policyholders funds	551,860	515,078
Other liabilities	1,059,034	715,110
Mortgage loan backed certificates	85,873	
Deferred income taxes	891,177	553,062
Non-recourse funding obligations	556,600	575,000
Long-term debt	1,474,852	1,644,852
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	3,307,239	2,948,457
Variable universal life	304,423	316,007
Total liabilities	41,491,376	39,832,766
Commitments and contingencies - Note 7		
Shareowners equity		
Preferred Stock; \$1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, \$.50 par value, shares authorized: 2010 and 2009 - 160,000,000; shares issued: 2010 and 2009 - 88,776,960	44,388	44,388

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Additional paid-in-capital	581,646	576,887
Treasury stock, at cost (2010 - 3,114,769 shares; 2009 - 3,196,157 shares)	(25,745)	(25,929)
Unallocated stock in Employee Stock Ownership Plan (2010 and 2009 - 0 shares)		
Retained earnings	2,307,820	2,204,644
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2010 -\$157,137; 2009 - \$(121,737))	291,826	(225,648)
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2010 - \$(27,159); 2009 - \$(16,704))	(50,437)	(31,021)
Accumulated loss - derivatives, net of income tax: (2010 - \$(10,194); 2009 - \$(10,182))	(18,931)	(18,327)
Postretirement benefits liability adjustment, net of income tax: (2010 -\$(24,214); 2009 - \$(24,862))	(44,968)	(46,173)
Total Protective Life Corporation's shareowners' equity	3,085,599	2,478,821
Noncontrolling interest	(739)	
Total equity	3,084,860	2,478,821
Total liabilities and shareowners' equity	\$ 44,576,236	\$ 42,311,587

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS' EQUITY

(Unaudited)

	Common Stock	Additional Paid-In- Capital	Treasury Stock	Retained Earnings	Net Unrealized Gains / (Losses) on Investments	Accumulated Gain / (Loss) Derivatives	Minimum Pension Liability Adjustments	Total Protective Life Corporation's shareowners' equity	Non controlling Interest	Total Equity
	(Dollars In Thousands)									
Balance, December 31, 2009	\$ 44,388	\$ 576,887	\$ (25,929)	\$ 2,204,644	\$ (256,669)	\$ (18,327)	\$ (46,173)	\$ 2,478,821		\$ 2,478,821
Net income for the three months ended March 31, 2010				69,779				69,779	(73)	69,706
Change in net unrealized gains/losses on investments (net of income tax - \$142,481)					263,959			263,959		263,959
Reclassification adjustment for investment amounts included in net income (net of income tax - \$1,725)					3,418			3,418		3,418
Change in net unrealized gains/losses relating to other-than-temporary impaired investments for which a portion has been recognized in earnings (net of income tax \$(3,495))					(6,492)			(6,492)		(6,492)
Change in accumulated gain (loss) derivatives (net of income tax - \$3,423)						5,718		5,718		5,718
Reclassification adjustment for derivative amounts included in net income (net of income tax - \$(974))						(1,752)		(1,752)		(1,752)
Change in minimum pension liability adjustment (net of income tax - \$324)							602	602		602
Comprehensive income for the three months ended March 31, 2010								335,232	(73)	335,159
Cash dividends (\$0.120 per share)				(10,270)				(10,270)		(10,270)
Cumulative effect adjustments				14,290				14,290		14,290
Noncontrolling interest									(418)	(418)
Stock-based compensation		3,028	(68)					2,960		2,960
Balance, March 31, 2010	\$ 44,388	\$ 579,915	\$ (25,997)	\$ 2,278,443	\$ 4,216	\$ (14,361)	\$ (45,571)	\$ 2,821,033	\$ (491)	\$ 2,820,542
Net income for the three months ended June 30, 2010				41,371				41,371	(127)	41,244
Change in net unrealized gains/losses on investments (net of income tax - \$130,774)					242,856			242,856		242,856
Reclassification adjustment for investment amounts included in net income (net of income tax - \$3,894)					7,241			7,241		7,241
					(12,924)			(12,924)		(12,924)

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Change in net unrealized gains/losses relating to other-than-temporary impaired investments for which a portion has been recognized in earnings (net of income tax \$(6,960))											
Change in accumulated gain (loss) derivatives (net of income tax - \$(3,229))				(5,952)			(5,952)			(5,952)	
Reclassification adjustment for derivative amounts included in net income (net of income tax - \$768)				1,382			1,382			1,382	
Change in minimum pension liability adjustment (net of income tax - \$325)						603		603			603
Comprehensive income for the three months ended June 30, 2010								274,577	(127)		274,450
Cash dividends (\$0.14 per share)						(11,994)			(11,994)		(11,994)
Cumulative effect adjustments											
Noncontrolling interest									(121)		(121)
Stock-based compensation		1,731	252					1,983			1,983
Balance, June 30, 2010	\$ 44,388	\$ 581,646	\$ (25,745)	\$ 2,307,820	\$ 241,389	\$ (18,931)	\$ (44,968)	\$ 3,085,599	\$ (739)	\$	3,084,860

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Six Months Ended June 30,	
	2010	2009
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	\$ 110,950	\$ 112,892
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	56,024	10,399
Amortization of deferred policy acquisition costs and value of business acquired	104,375	203,597
Capitalization of deferred policy acquisition costs	(247,533)	(180,269)
Depreciation expense	4,604	3,322
Deferred income tax	27,558	2,342
Accrued income tax	71,090	3,437
Interest credited to universal life and investment products	494,693	505,417
Policy fees assessed on universal life and investment products	(299,620)	(295,140)
Change in reinsurance receivables	(219,984)	(54,572)
Change in accrued investment income and other receivables	(6,052)	(18,375)
Change in policy liabilities and other policyholders' funds of traditional life and health products	238,548	111,564
Trading securities:		
Maturities and principal reductions of investments	175,017	320,705
Sale of investments	319,383	429,179
Cost of investments acquired	(468,303)	(426,631)
Other net change in trading securities	(33,950)	(150,378)
Change in other liabilities	191,882	86,944
Other, net	39,597	(60,023)
Net cash provided by operating activities	558,279	604,410
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	889,299	1,320,521
Sale of investments, available-for-sale	1,979,372	582,088
Cost of investments acquired, available-for-sale	(3,627,942)	(1,324,348)
Mortgage loans:		
New borrowings	(154,251)	(140,420)
Repayments	150,574	141,673
Change in investment real estate, net	1,969	(3,361)
Change in policy loans, net	19,171	18,080
Change in other long-term investments, net	(29,548)	17,030
Change in short-term investments, net	85,775	(605,064)
Purchase of property and equipment	(5,171)	(2,515)
Net cash (used in) provided by investing activities	(690,752)	3,684
Cash flows from financing activities		
Borrowings under line of credit arrangements and long-term debt	90,000	197,000
Principal payments on line of credit arrangement and long-term debt	(260,000)	(122,000)
Issuance (repayment) of non-recourse funding obligations	(18,400)	
Dividends to shareowners	(22,264)	(16,799)
Issuance of common stock		132,763
Investments product deposits and change in universal life deposits	1,827,781	1,377,341

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Investment product withdrawals	(1,529,502)	(2,100,158)
Other financing activities, net	(3,943)	(19,059)
Net cash provided by (used in) financing activities	83,672	(550,912)
Change in cash	(48,801)	57,182
Cash at beginning of period	205,325	149,358
Cash at end of period	\$ 156,524	\$ 206,540

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and six months period ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The year-end consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

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.

Entities Included

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Pronouncements Recently Adopted

Accounting Standard Update (ASU or Update) No. 2010-06 Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements. In January of 2010, Financial Accounting Standards Board (FASB) issued ASU No. 2010-06 Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements. This Update provides amendments to Subtopic 820-10 that requires the following new disclosures. 1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

This Update provides amendments to Subtopic 820-10 that clarifies existing disclosures. 1) A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. 2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. This Update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from *major categories* of assets to *classes* of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. This Update is effective for interim and annual reporting periods beginning after December 15, 2009, which became

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effective for the Company for the period ending March 31, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This Update did not have a material impact on the Company's consolidated results of operations or financial position.

ASU No. 2009-16 Transfers and Servicing Accounting for Transfers of Financial Assets. In December of 2009, FASB issued ASU No. 2009-16 Transfers and Services Accounting for Transfers of Financial Assets. The amendments in this Update incorporate FASB Statement No. 166, *Accounting for Transfers of Financial Assets an amendment of SFAS No. 140* into the Accounting Standards Codification (ASC). That Statement was issued by the Board on June 12, 2009. This Update enhances the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a continuing interest in transferred financial assets. This Update also eliminates the concept of a qualifying special-purpose entity (QSPE), changes the requirements for de-recognition of financial assets, and calls upon sellers of the assets to make additional disclosures. This Update is effective for interim or annual reporting periods beginning after November 15, 2009. This guidance was effective for the Company on January 1, 2010. As of January 1, 2010, the Company held interests in two previous transfers of financial assets to QSPEs, the 2007 Commercial Mortgage Securitization and the 1996-1999 Commercial Mortgage Securitization. As part of adoption of this guidance the Company reviewed these entities as part of our consolidation analysis of variable interest entities (VIEs). The conclusion of the review was that the former QSPEs should be consolidated by the Company. Please refer to Note 4, *Variable Interest Entities* for more information. The Company has not transferred any financial assets since the adoption of this standard. The Company will apply this guidance to all future transfers of financial assets.

ASU No. 2009-17 Consolidations Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. In December of 2009, FASB issued ASU No. 2009-17 Consolidations Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. The amendments to this Update incorporate FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167) into the ASC. SFAS No. 167 was issued by the Board on June 12, 2009. This Statement applies to all investments in VIEs beginning for the Company on January 1, 2010. This analysis will include QSPEs used for securitizations as SFAS No. 166 eliminated the concept of a QSPE which subjects former QSPEs to the provisions of FIN 46(R) as amended by this statement. Based on our review of our December 31, 2009 information, the impact of adoption of ASU No. 2009-17 (SFAS No. 167) resulted in the consolidation of two securitization trusts, the 2007 Commercial Mortgage Securitization and the 1996-1999 Commercial Mortgage Securitization. Please refer to Note 4, *Variable Interest Entities* for more information regarding the consolidation of these two trusts.

Accounting Pronouncements Not Yet Adopted

ASU No. 2010-15 Financial Services Insurance How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments. The amendments in this Update clarify that an insurance entity should not consider any separate account interests held for the benefit of policy holders in an investment to be the insurer's interests. The entity should not combine general account and separate account interests in the same investment when assessing the investment for consolidation. Additionally, the amendments do not require an insurer to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the standalone financial statements of the separate account. The amendments in this Update also provide guidance on how an insurer should consolidate an investment fund in situations in which the insurer concludes that consolidation is required. This Update is effective for fiscal years beginning after December 15, 2010. For the Company this Update will be effective January 1, 2011. The Company is currently evaluating the impact of this Update.

ASU No. 2010-20 Receivables Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The objective of this Update is to require disclosures that facilitate financial statement users in evaluating the nature of credit risk inherent in the portfolio of financing receivables (loans); how that risk is analyzed and assessed in arriving at the allowance for credit losses; and any changes

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and the reasons for those changes to the allowance for credit losses. The Update requires several new disclosures regarding the reserve for credit losses and other disclosures related to the credit quality of the Company's mortgage loan portfolio. These new disclosure requirements will be effective for reporting periods ending on or after December 15, 2010. For the Company this will be December 31, 2010. This standard does not change current accounting for Financing Receivables and Loans, but only requires additional disclosures. The Company is evaluating the impact this Update will have on the footnotes to the financial statements.

Table of Contents**Significant Accounting Policies**

For a full description of significant accounting policies, see Note 2 of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. There were no significant changes to the Company's accounting policies during the six months ended June 30, 2010, except as noted above.

3. INVESTMENT OPERATIONS

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

	For The Three Months Ended June 30, 2010	For The Six Months Ended June 30, 2010
	(Dollars In Thousands)	
Fixed maturities	\$ 5,650	\$ 12,376
Equity securities	13	13
Impairments on fixed maturity securities	(16,798)	(28,667)
Modco trading portfolio	63,967	108,060
Mortgage loans and other investments	(1,926)	(4,846)
	\$ 50,906	\$ 86,936

For the three and six months ended June 30, 2010, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$35.1 million and \$43.4 million and gross realized losses were \$46.2 million and \$59.5 million, including \$16.7 million and \$28.5 million of impairment losses, respectively. The \$16.7 million and \$28.5 million exclude \$0.1 million and \$0.2 million of impairment losses in the trading portfolio for the three and six months ended June 30, 2010, respectively.

For the three and six months ended June 30, 2010, the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$802.6 million and \$1.8 billion, respectively. The gains realized on the sale of these securities were \$35.1 million and \$43.4 million, respectively.

For the three and six months ended June 30, 2010, the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$131.5 million and \$234.2 million, respectively. The loss realized on the sale of these securities was \$29.5 million and \$31.0 million, respectively. The \$31.0 million loss recognized on available-for-sale securities for the six months ended June 30, 2010, includes \$12.2 million of loss on the sale of certain oil industry holdings. The Company made the decision to exit these holdings pursuant to new circumstances surrounding the oil spill in the Gulf of Mexico. In addition, a \$3.8 million loss was recognized on the sale of securities in which the issuer was a European financial institution. Also included in the \$31.0 million loss is a \$10.4 million loss due to the exchange of certain holdings as the issuer exited bankruptcy proceedings.

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The amortized cost and estimated fair value of the Company's investments classified as available-for-sale as of June 30, 2010, are as follows:

	Amortized Cost	Gross Unrealized Gains (Dollars In Thousands)	Gross Unrealized Losses	Estimated Fair Value
2010				
Fixed maturities:				
Bonds				
Residential mortgage-backed securities	\$ 3,256,885	\$ 52,304	\$ (278,768)	\$ 3,030,421
Commercial mortgage-backed securities	168,902	6,972	(403)	175,471
Other asset-backed securities	951,209	2,275	(75,633)	877,851
U.S. government-related securities	1,296,885	44,287	(227)	1,340,945
Other government-related securities	202,044	5,431	(120)	207,355
States, municipals, and political subdivisions	644,118	33,223	(1,626)	675,715
Corporate bonds	13,606,892	975,099	(256,492)	14,325,499
	20,126,935	1,119,591	(613,269)	20,633,257
Equity securities	314,325	4,062	(19,926)	298,461
Short-term investments	842,287			842,287
	\$ 21,283,547	\$ 1,123,653	\$ (633,195)	\$ 21,774,005

As of June 30, 2010, the Company had an additional \$3.1 billion of fixed maturities, \$10.5 million of equity securities, and \$130.5 million of short-term investments classified as trading securities.

The amortized cost and fair value of available-for-sale fixed maturities as of June 30, 2010, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Amortized Cost	Fair Value
	(Dollars In Thousands)	
Due in one year or less	\$ 619,408	\$ 629,649
Due after one year through five years	4,026,952	4,063,345
Due after five years through ten years	5,318,466	5,594,050
Due after ten years	10,162,109	10,346,213
	\$ 20,126,935	\$ 20,633,257

Each quarter the Company reviews investments with unrealized losses and tests for other-than-temporary impairments. The Company analyzes various factors to determine if any specific other-than-temporary asset impairments exist. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of the Company's intent to sell the security (including a more likely than not assessment of whether the Company will be required to sell the security) before recovering the security's amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered, and in some cases, an analysis regarding the Company's expectations for recovery of the security's entire amortized cost basis through the receipt of future cash flows is performed. Once a determination has been made that a specific other-than-temporary impairment exists, the security's basis is adjusted and an other-than-temporary impairment is recognized.

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Equity securities that are other-than-temporarily impaired are written down to fair value with a realized loss recognized in earnings. Other-than-temporary impairments to debt securities that the Company does not intend to sell and does not expect to be required to sell before recovering the security's amortized cost are written down to discounted expected future cash flows (post impairment cost) and credit losses are recorded in earnings. The difference between the securities' discounted expected future cash flows and the fair value of the securities is recognized in other comprehensive income (loss) as a non-credit portion of the recognized other-than-temporary impairment. When calculating the post impairment cost for residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities, the Company considers all known market data related to cash flows to estimate future cash flows. When calculating the post

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impairment cost for corporate debt securities, the Company considers all contractual cash flows to estimate expected future cash flows. To calculate the post impairment cost, the expected future cash flows are discounted at the original purchase yield. Debt securities that the Company intends to sell or expects to be required to sell before recovery are written down to fair value with the change recognized in earnings.

During the three and six months ended June 30, 2010, the Company recorded other-than-temporary impairments of investments of \$36.7 million and \$58.5 million, respectively. Of the \$36.7 million of impairments for the three months ended June 30, 2010, \$16.8 million was recorded in earnings and \$19.9 million was recorded in other comprehensive income (loss). Of the \$58.5 million of impairments for the six months ended June 30, 2010, \$28.7 million was recorded in earnings and \$29.8 million was recorded in other comprehensive income (loss). For the three and six months ended June 30, 2010, there were no other-than-temporary impairments related to equity securities. For the three and six months ended June 30, 2010, there were \$36.7 million and \$58.5 million of other-than-temporary impairments related to debt securities, respectively.

For the three months ended June 30, 2010, 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 \$36.7 million, with \$16.8 million of credit losses recognized on debt securities in earnings and \$19.9 million of non-credit losses recorded in other comprehensive income (loss). During the same period, there were no other-than-temporary impairments related to debt securities that the Company intends to sell or expects to be required to sell.

For the six months ended June 30, 2010, 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 \$58.5 million, with \$28.7 million of credit losses recognized on debt securities in earnings and \$29.8 million of non-credit losses recorded in other comprehensive income (loss). During the same period, there were no other-than-temporary impairments related to debt securities that the Company intends to sell or expects to be required to sell.

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars In Thousands)			
Beginning balance	\$ 33,366	\$ 40,014	\$ 25,076	\$ 55,418
Additions for newly impaired securities	12,894	15,404	19,450	7,136
Additions for previously impaired securities	17	7,136	1,751	
Reductions for previously impaired securities due to a change in expected cash flows		(15,826)		(15,826)
Reductions for previously impaired securities that were sold in the current period	(14,701)		(14,701)	
Ending balance	\$ 31,576	\$ 46,728	\$ 31,576	\$ 46,728

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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 June 30, 2010:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	\$ 182,046	\$ (12,448)	\$ 1,835,502	\$ (266,320)	\$ 2,017,548	\$ (278,768)
Commercial mortgage-backed securities			6,604	(403)	6,604	(403)
Other asset-backed securities	448,886	(41,945)	241,180	(33,688)	690,066	(75,633)
U.S. government-related securities	46,105	(227)			46,105	(227)
Other government-related securities	69,407	(103)	19,983	(17)	89,390	(120)
States, municipals, and political subdivisions	95,739	(1,615)	483	(11)	96,222	(1,626)
Corporate bonds	1,034,587	(38,978)	1,655,541	(217,514)	2,690,128	(256,492)
Equities	52,083	(11,888)	48,512	(8,038)	100,595	(19,926)
	\$ 1,928,853	\$ (107,204)	\$ 3,807,805	\$ (525,991)	\$ 5,736,658	\$ (633,195)

The residential mortgage-backed securities (RMBS) have a gross unrealized loss greater than twelve months of \$266.3 million as of June 30, 2010. These losses relate to a widening in spreads and defaults as a result of continued weakness in the residential housing market. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of the investments.

The corporate bonds category has gross unrealized losses greater than twelve months of \$217.5 million as of June 30, 2010. 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 these 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 June 30, 2010, the Company had securities in its available-for-sale portfolio, which were rated below investment grade of \$3.0 billion and had an amortized cost of \$3.3 billion. In addition, included in the Company's trading portfolio, the Company held \$355.9 million of securities which were rated below investment grade. Approximately \$486.2 million of the below investment grade securities were not publicly traded.

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

	For The Three Months Ended June 30, 2010	For The Six Months Ended June 30, 2010
	(Dollars In Thousands)	
Fixed maturities	\$ 289,673	\$ 587,738
Equity securities	(10,706)	(6,986)

4. VARIABLE INTEREST ENTITIES

In June of 2009, the FASB amended the guidance related to VIEs which was later codified in the ASC through ASU No. 2009-17. Among other accounting and disclosure requirements, this guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a VIE with an approach focused on identifying which enterprise has the power to direct the activities of a VIE that most significantly impact its economics and the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. Additionally, the FASB amended the guidance related to accounting for transfers of financial assets which was later codified in the ASC through ASU No. 2009-16. This guidance, among other requirements, removed the concept of a QSPE used for the securitization

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of financial assets. Previously, QSPEs were excluded from the guidance related to VIEs. Upon adoption of ASU No. 2009-17 and ASU No. 2009-16 on January 1, 2010, the Company will no longer exclude QSPEs from the analysis of VIEs.

As part of adopting these updates, the Company updated its process for evaluating VIEs. The Company's analysis consists of a review of entities in which the Company has an ownership interest that is less than 100% (excluding debt and equity securities held as trading and available-for-sale), as well as entities with which the Company has significant contracts or other relationships that could possibly be considered variable interests. The Company reviews the characteristics of each of these applicable entities and compares those characteristics to the criteria of a VIE set forth in Topic 810 of the FASB ASC. If the entity is determined to be a VIE, the Company then performs a detailed review of all significant contracts and relationships (individually an interest, collectively interests) with the entity to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company: 1) has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

Based on this analysis the Company had interests in two former QSPEs that were determined to be VIEs as of January 1, 2010. These two VIEs were trusts used to facilitate commercial mortgage loan securitizations. The determining factor was that the trusts had negligible or no equity at risk. The Company's variable interests in the trusts are created by the contract to service the mortgage loans held by the trusts as well as the retained beneficial interests in certain of these securities issued by the trusts. The activities that most significantly impact the economics of the trusts are predominantly related to the servicing of the mortgage loans, such as timely collection of principal and interest, direction of foreclosure proceedings, and management and sale of foreclosed real estate owned by the trusts. The Company is the servicer responsible for these activities and has the sole power to appoint such servicer through its beneficial interests in the securities. These criteria give the Company the power to direct the activities of the trusts that most significantly impact the trusts economic performance. Additionally, the Company is obligated, as an owner of the securities issued by the trusts, to absorb its share of losses on the securities. The Company's share of losses could potentially be significant to the trusts. Based on the fact that the Company has the power to direct the activities that most significantly impact the economics of the trusts and the obligation to absorb losses that could potentially be significant, it was determined that the Company is the primary beneficiary of the trusts, thus resulting in consolidation.

The assets of the trusts consist entirely of commercial mortgage loans and accrued interest, which are restricted and can only be used to satisfy the obligations of the trusts. The obligations of the trusts consist of commercial mortgage-backed certificates. The assets and obligations of the trusts are equal and thus, the trusts have no equity interest. The certificates are direct obligations of the trusts and are not guaranteed by the Company. The Company has no other obligations to the trusts other than those that are customary for a servicer of mortgage loans. Over the life of the trusts, the Company has not provided and will not provide any financial or other support to the trusts other than customary actions taken by a servicer of mortgage loans.

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The following adjustments to the Company's consolidated condensed balance sheet were made as of January 1, 2010:

Adjustments to the Consolidated Condensed Balance Sheets

	As of January 1, 2010 (Dollars In Thousands)	
Assets		
Fixed maturities:		
Commercial mortgage-backed securities at fair value (amortized cost - \$873,196)	\$	(844,535)(1)
Mortgage loans - securitized (net of loan loss reserve of \$1.1 million)		1,018,000(2)
Total investments		173,465
Accrued investment income		361(2)
Total Assets	\$	173,826
Liabilities		
Deferred income taxes	\$	17,744(3)
Mortgage loan backed certificates		124,580(2)
Other liabilities		(1,400)(4)
Total liabilities		140,924
Shareowners' equity		
Retained earnings		14,290(2)
Accumulated other comprehensive income (loss)		18,612(5)
Total shareowners' equity		32,902
Total liabilities and shareowners' equity	\$	173,826

(1)	The noncash portion for the consolidated condensed statements of cash flows for the three months ended March 31, 2010, was \$873.2 million.
(2)	The noncash portion for the consolidated condensed statements of cash flows for the three months ended March 31, 2010, is the amount presented.
(3)	The noncash portion for the consolidated condensed statements of cash flows for the three months ended March 31, 2010, was \$7.7 million.
(4)	The other liabilities did not have an effect on the consolidated condensed statements of cash flows for the three months ended March 31, 2010.
(5)	The accumulated other comprehensive income (loss) did not have an effect on the consolidated condensed statements of cash flows for the three months ended March 31, 2010.

The adjustments had a net zero impact to the consolidated condensed statements of cash flows.

The reduction in fixed maturity commercial mortgage-backed securities (CMBS) represents the beneficial interests held by the Company that have been removed due to the consolidation of the trusts. This amount is reflected in fixed maturities on the consolidated condensed balance sheet.

The increase in mortgage loans represents the mortgage loans held by the trusts that have been consolidated. This balance is net of a loan loss reserve of \$1.1 million.

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The increase in accrued investment income is the result of accruing interest on the entire pool of mortgage loans.

The increase in deferred income taxes is a result of a change in temporary tax differences arising from the adjustments to shareowners' equity.

The mortgage loan backed certificates liability represents the commercial mortgage-backed securities issued by the trusts and held by third parties.

The decrease in other liabilities is a decrease in amounts payable to the trusts of approximately \$1.4 million. Upon consolidation of the trusts as of January 1, 2010, the Company adjusted retained earnings to reflect after tax interest income not recognized in prior periods due to the securitization of the commercial mortgage loans. If the Company had held the mortgage loans as opposed to the retained beneficial interest securities, the Company's retained earnings would have been \$14.3 million higher over the life of the securities.

The adjustment to accumulated other comprehensive income (loss) was a result of different accounting basis for mortgage loans and the CMBS. As of December 31, 2009, the retained beneficial interest securities were

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carried at fair value in the balance sheet and had an after tax unrealized loss in accumulated other comprehensive income (loss) of \$18.6 million. Upon consolidation of the trusts on January 1, 2010, the Company consolidated the mortgage loans held by the trusts which are carried at amortized cost less any related loan loss reserve. The retained beneficial interest securities as well as the associated unrealized loss were eliminated in consolidation.

5. GOODWILL

During the six months ended June 30, 2010, the Company decreased its goodwill balance by approximately \$1.5 million. The decrease was due to adjustments in the Acquisitions segment related to tax benefits realized during 2010 on the portion of tax goodwill in excess of GAAP basis goodwill. As of June 30, 2010, the Company had an aggregate goodwill balance of \$116.3 million.

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business to assess the recoverability of the capitalized acquisition goodwill. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compared its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company's material goodwill balances are attributable to its operating segments (which are considered to be reporting units). The cash flows used to determine the fair value of the Company's reporting units are dependent on a number of significant assumptions. The Company's estimates are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. Additionally, the discount rate used is based on the Company's judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows. As of December 31, 2009, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary.

The Company also considers its market capitalization in assessing the reasonableness of the fair values estimated for its reporting units in connection with its goodwill impairment testing. In considering the Company's June 30, 2010 common equity price, which was lower than its book value per share, the Company noted there are several factors that would result in its market capitalization being lower than the fair value of its reporting units that are tested for goodwill impairment. Such factors that would not be reflected in the valuation of the Company's reporting units with goodwill include, but are not limited to: a potential concern about future earnings growth; negative market sentiment, different valuation methodologies that resulted in low valuation, and increased risk premium for holding investments in mortgage-backed securities and commercial mortgage loans. Deterioration of or adverse market conditions for certain businesses may have a significant impact on the fair value of the Company's reporting units. As previously noted, the fair value of the Company's operating segments support the goodwill balance as of June 30, 2010. In the Company's view, the decline in market capitalization does not invalidate the Company's fair value assessment related to the recoverability of goodwill in its reporting units, and did not result in a triggering or impairment event.

Table of Contents**6. DEBT AND OTHER OBLIGATIONS**

Non-recourse funding obligations outstanding as of June 30, 2010, on a consolidated basis, are shown in the following table:

Issuer	Balance (Dollars In Thousands)	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
Golden Gate II Captive Insurance Company	\$ 556,600	2052	1.47%

During the three months ended June 30, 2010, the Company repurchased \$18.4 million of non-recourse funding obligations and recognized a \$9.5 million gain on the repurchase of these obligations.

Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by PLICO, had \$575 million of outstanding non-recourse funding obligations as of June 30, 2010. Of this amount, \$556.6 million were owned by external parties and \$18.4 million were owned by an affiliate.

Under a revolving line of credit arrangement, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of \$500 million (the Credit Facility). There was an outstanding balance of \$115.0 million at an interest rate of LIBOR plus 0.40% under the Credit Facility as of June 30, 2010. As discussed in more detail in Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, Capital Resources , in the second quarter of 2010, the Company repaid \$180.0 million of the outstanding balance of the credit facility that was previously used to purchase non-recourse funding obligations issued by an indirect, wholly owned special purpose financial captive insurance company.

7. 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 governance documents. See Item 1, Note 16, *Subsequent Events*, for information regarding the Company's contingent liability with respect to indemnification of its directors.

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, in the ordinary course of business, is involved in such litigation and arbitration. The occurrence of such litigation and arbitration may become more frequent and/or severe when general economic conditions have deteriorated. 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.

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars In Thousands)			
Net income	\$ 41,244	\$ 90,757	\$ 110,950	\$ 112,892
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2010 - \$130,774; 2009 - \$337,533 six months: 2010 - \$273,255; 2009 \$313,087)	242,856	610,113	506,815	566,408
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2010 - \$(6,960); 2009 - \$(2,767) six months: 2010 - \$(10,455); 2009 \$(12,388))	(12,924)	(5,139)	(19,416)	(23,006)
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2010 - \$(3,229); 2009 - \$2,463 six months: 2010 - \$(194); 2009 - \$10,321)	(5,952)	4,186	(234)	18,578
Minimum pension liability adjustment, net of income tax: (three months: 2010 - \$325; 2009 - \$178 six months: 2010 - \$649; 2009 - \$355)	603	331	1,205	660
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2010 - \$3,894; 2009 - \$9,674 six months: 2010 - \$5,619; 2009 - \$39,523)	7,241	17,730	10,659	72,153
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2010 \$768; 2009 - \$565 six months: 2010 \$(206); 2009 - \$302)	1,382	1,264	(370)	544
Comprehensive income (loss)	274,450	719,242	609,609	748,229
Comprehensive income (loss) attributable to noncontrolling interests	127		200	
Comprehensive income (loss) attributable to Protective Life Corporation	\$ 274,577	\$ 719,242	\$ 609,809	\$ 748,229

9. STOCK-BASED COMPENSATION

The criteria for payment of performance awards is based primarily upon a comparison of the Company's average return on average equity over a four-year period (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

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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. There were no performance share awards issued during the six months ended June 30, 2010 or 2009.

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

	Weighted-Average Base Price per share	No. of SARs
Balance as of December 31, 2009	\$ 22.28	2,469,202
SARs granted	18.34	344,400
SARs exercised / forfeited / expired	21.24	(454,071)
Balance as of June 30, 2010	\$ 21.90	2,359,531

The SARs issued for the six months ended June 30, 2010, had estimated fair values at grant date of \$3.3 million. These fair values were estimated using a Black-Scholes option pricing model. The assumptions used in this pricing model varied depending on the vesting period of awards. Assumptions used in the model for the 2010

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SARs granted (the simplified method under the ASC Compensation-Stock Compensation Topic was used for the 2010 awards) were as follows: an expected volatility of 69.4%, a risk-free interest rate of 2.6%, a dividend rate of 2.4%, a zero percent forfeiture rate, and an expected exercise date of 2016. The Company will pay an amount in stock equal to the difference between the specified base price of the Company's common stock and the market value at the exercise date for each SAR.

Additionally, the Company issued 360,450 restricted stock units for the six months ended June 30, 2010. These awards had a total fair value at grant date of \$6.6 million. Approximately half of these restricted stock units vest in 2013, and the remainder vest in 2014.

10. EMPLOYEE BENEFIT PLANS

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 June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars In Thousands)			
Service cost – benefits earned during the period	\$ 2,068	\$ 1,889	\$ 4,136	\$ 3,778
Interest cost on projected benefit obligation	2,357	2,395	4,714	4,790
Expected return on plan assets	(2,312)	(2,531)	(4,624)	(5,062)
Amortization of prior service cost	(98)	(98)	(196)	(196)
Amortization of actuarial losses	1,026	568	2,052	1,136
Total benefit cost	\$ 3,041	\$ 2,223	\$ 6,082	\$ 4,446

During the six months ended June 30, 2010, the Company did not make a contribution to its defined benefit pension plan. However, during July of 2010, the Company contributed \$0.2 million to the defined benefit pension plan. The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the six months ended June 30, 2010, was immaterial to the Company's financial statements.

Table of Contents**11. EARNINGS PER SHARE**

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

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
(Dollars In Thousands, Except Per Share Amounts)				
Calculation of basic earnings per share:				
Net income available to PLC's common shareowners	\$ 41,371	\$ 90,757	\$ 111,150	\$ 112,892
Average shares issued and outstanding	85,634,202	76,980,175	85,610,825	73,480,155
Issuable under various deferred compensation plans	928,177	913,305	920,636	911,326
Weighted shares outstanding - Basic	86,562,379	77,893,480	86,531,461	74,391,481
Per share:				
Net income available to PLC's common shareowners - basic	\$ 0.48	\$ 1.17	\$ 1.28	\$ 1.52
Calculation of diluted earnings per share:				
Net income available to PLC's common shareowners	\$ 41,371	\$ 90,757	\$ 111,150	\$ 112,892
Weighted shares outstanding - Basic	86,562,379	77,893,480	86,531,461	74,391,481
Stock appreciation rights (SARs)(1)	471,503	330,356	465,304	274,829
Issuable under various other stock-based compensation plans	138,173	100,973	146,599	149,766
Restricted stock units	493,980	203,702	465,663	163,960
Weighted shares outstanding - Diluted	87,666,035	78,528,511	87,609,027	74,980,036
Per share:				
Net income available to PLC's common shareowners - diluted	\$ 0.47	\$ 1.16	\$ 1.27	\$ 1.51

(1) Excludes 1,475,645 and 1,554,373 as of June 30, 2010 and 2009, 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 outstanding for applicable periods.

12. INCOME TAXES

During the three months ended June 30, 2010, earnings were impacted unfavorably by \$0.2 million due to the accrual of interest on unrecognized tax benefits. During the six months ended June 30, 2010, earnings were impacted favorably by \$2.3 million due to the release of unrecognized income tax benefits relating to tax-basis policy liabilities as well as the closing of the statute of limitation for the 2005 tax year. This release was prompted by the Internal Revenue Service's recent technical guidance confirming the Company's historical calculations. 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.

The Company has computed its effective income tax rate for the three and six months ended June 30, 2010, based upon its estimate of its annual 2010 income. For the three and six months ended June 30, 2009, due to the unpredictability at that time of future investment losses and certain elements of operating income, the Company was not able to reasonably estimate an expected annual effective tax rate. Instead, the Company computed an effective income tax rate based upon year-to-date reported income. The effective tax rate for the three and six months ended June 30, 2010, was 36.0% and 33.1%, respectively, and 35.3% and 34.5% for three and six months ended June 30, 2009, respectively.

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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 June 30, 2010.

13. 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 FASB guidance referenced in the Fair Value Measurements and Disclosures Topic which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In the first quarter of 2009, the Company adopted the provisions from the FASB guidance that is referenced in the Fair Value Measurements and Disclosures Topic for non-financial assets and liabilities (such as property and equipment, goodwill, and other intangible assets) that are required to be measured at fair value on a periodic basis. The effect on the Company's periodic fair value measurements for non-financial assets and liabilities was not material.

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

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

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

- **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:
 - a) Quoted prices for similar assets or liabilities in active markets
 - b) Quoted prices for identical or similar assets or liabilities in non-active markets
 - c) Inputs other than quoted market prices that are observable
 - d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

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

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The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	\$	\$ 3,030,400	\$ 21	\$ 3,030,421
Commercial mortgage-backed securities		135,519	39,952	175,471
Other asset-backed securities		280,560	597,291	877,851
U.S. government-related securities	1,024,017	301,779	15,149	1,340,945
States, municipals, and political subdivisions		675,633	82	675,715
Other government-related securities	14,987	192,368		207,355
Corporate bonds	100	14,217,023	108,376	14,325,499
Total fixed maturity securities - available-for-sale	1,039,104	18,833,282	760,871	20,633,257
Fixed maturity securities - trading				
Residential mortgage-backed securities		480,943		480,943
Commercial mortgage-backed securities		121,559		121,559
Other asset-backed securities		12,616	61,137	73,753
U.S. government-related securities	455,716	23,954	3,562	483,232
States, municipals, and political subdivisions		108,134		108,134
Other government-related securities		161,494		161,494
Corporate bonds		1,625,113	43	1,625,156
Total fixed maturity securities - trading	455,716	2,533,813	64,742	3,054,271
Total fixed maturity securities	1,494,820	21,367,095	825,613	23,687,528
Equity securities	217,718	18,096	73,137	308,951
Other long-term investments (1)	919	2,534	9,531	12,984
Short-term investments	953,107	19,697		972,804
Total investments	2,666,564	21,407,422	908,281	24,982,267
Cash	156,524			156,524
Other assets	5,071			5,071
Assets related to separate accounts				
Variable annuity	3,307,239			3,307,239
Variable universal life	304,423			304,423
Total assets measured at fair value on a recurring basis	\$ 6,439,821	\$ 21,407,422	\$ 908,281	\$ 28,755,524
Liabilities:				
Annuity account balances (2)	\$	\$	\$ 149,440	\$ 149,440
Other liabilities (1)		44,842	233,197	278,039
Total liabilities measured at fair value on a recurring basis	\$	\$ 44,842	\$ 382,637	\$ 427,479

(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, 2009:

	Level 1	Level 2 (Dollars In Thousands)	Level 3	Total
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	\$	\$ 3,370,688	\$ 23	\$ 3,370,711
Commercial mortgage-backed securities		143,486	844,535	988,021
Other asset-backed securities		360,797	693,930	1,054,727
U.S. government-related securities	444,302	30,198	15,102	489,602
States, municipals, and political subdivisions		350,632	86	350,718
Other government-related securities	16,992	389,379		406,371
Corporate bonds	200	13,127,347	86,328	13,213,875
Total fixed maturity securities - available-for-sale	461,494	17,772,527	1,640,004	19,874,025
Fixed maturity securities - trading	277,108	2,574,205	105,089	2,956,402
Total fixed maturity securities	738,602	20,346,732	1,745,093	22,830,427
Equity securities	204,697	92	70,708	275,497
Other long-term investments (1)		22,926	16,525	39,451
Short-term investments	983,123	66,486		1,049,609
Total investments	1,926,422	20,436,236	1,832,326	24,194,984
Cash	205,325			205,325
Other assets	4,977			4,977
Assets related to separate accounts				
Variable annuity	2,948,457			2,948,457
Variable universal life	316,007			316,007
Total assets measured at fair value on a recurring basis	\$ 5,401,188	\$ 20,436,236	\$ 1,832,326	\$ 27,669,750
Liabilities:				
Annuity account balances (2)	\$	\$	\$ 149,893	\$ 149,893
Other liabilities (1)		43,045	105,838	148,883
Total liabilities measured at fair value on a recurring basis	\$	\$ 43,045	\$ 255,731	\$ 298,776

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

Determination of fair values

The valuation methodologies used to determine the fair values of assets and liabilities reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines certain

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fair values based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity, and where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments as listed in the above table.

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

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the six months ended June 30, 2010.

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

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities - ABS). As of June 30, 2010, the Company held \$4.1 billion of ABS classified as Level 2. These securities are priced from information from a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity

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

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

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

As of June 30, 2010, the Company held \$698.4 million of Level 3 ABS, which included \$61.1 million of other asset-backed securities classified as trading. These securities are predominantly auction rate securities (ARS) whose underlying collateral is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). The model uses the discount margin and projected average life of comparable actively traded FFELP student loan-backed floating-rate asset-backed securities, along with a discount related to the current illiquidity of the ARS. These comparable securities are selected based on their underlying assets (i.e. FFELP-backed student loans) and vintage. As a result of the ARS market collapse during 2008, the Company prices its ARS using an internally developed model which utilizes a market based approach to valuation. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

Available-for-sale ABSs classified as Level 3 had, but were not limited to, the following inputs:

Investment grade credit rating	100.0%
Weighted-average yield	1.1%
Amortized cost	\$692.7 million
Weighted-average life	3.22 years

Corporate bonds, U.S. Government-related securities, and Other government related securities

As of June 30, 2010, the Company classified approximately \$17.3 billion of corporate bonds, U.S. government-related securities, and other government-related securities as Level 2. The fair value of the Level 2 bonds and securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the bonds and securities are considered to be the primary relevant inputs to the valuation: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings.

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

As of June 30, 2010, the Company classified approximately \$127.2 million of bonds and securities as Level 3 valuations. The fair value of the Level 3 bonds and securities are derived from an internal pricing model that utilizes a hybrid market/income approach to valuation. The Company reviews the following characteristics of the bonds and securities to determine the relevant inputs to use in the pricing model: 1) coupon rate, 2) years to maturity, 3) seniority, 4) embedded options, 5) trading volume, and 6) credit ratings.

Level 3 bonds and securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon, 3) sector and issuer level spreads, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

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Bonds and securities classified as Level 3 had, but were not limited to, the following weighted-average inputs:

Investment grade credit rating	91.6%
Weighted-average yield	4.9%
Weighted-average coupon	6.2%
Amortized cost	\$119.3 million
Weighted-average stated maturity	6.5 years

Equities

As of June 30, 2010, the Company held approximately \$91.2 million of equity securities classified as Level 2 and Level 3. These equity securities consist primarily of Federal Home Loan Bank stock. The Company believes that the cost of these investments approximates fair value.

Other long-term investments and Other liabilities

Other long-term investments and other liabilities consist entirely of free standing and embedded derivative instruments. Refer to Note 14, *Derivative Financial Instruments* for additional information related to derivatives. Derivative instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of June 30, 2010, 54.3% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest and equity volatility, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analysis.

Derivative instruments classified as Level 1 include futures and certain options, which are traded on active exchange markets.

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

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

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

The guaranteed minimum withdrawal benefit (GMWB) embedded derivative is carried at fair value in other assets and other liabilities on the Company's consolidated condensed balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments, refer to Note 14 *Derivative Financial Instruments* for more information related to GMWB embedded derivative gains and losses. The fair value of the GMWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using 1,000 risk neutral equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, we use our expected lapse and utilization assumptions and update these assumptions for our actual experience, as necessary. The Company assumes mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. The present value of the cash flows is found using the discount rate curve, which is London Interbank Offered Rate (LIBOR) plus a credit spread (to represent the Company's non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

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The Company has ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios are passed directly to the reinsurers. As a result, these agreements are deemed to contain embedded derivatives that must be reported at fair value. Changes in fair value of the embedded derivatives are reported in earnings. The investments supporting these agreements are designated as trading securities ; therefore changes in fair value are reported in earnings. The fair value of the embedded derivatives represents the unrealized gain or loss on the block of business in relation to the unrealized gain or loss of the trading securities. As a result, changes in fair value of the embedded derivatives reported in earnings are largely offset by the changes in fair value of the investments.

Annuity account balances

The equity indexed annuity (EIA) model calculates the present value of future benefit cash flows less the projected future profits to quantify the net liability that is held as a reserve. This calculation is done on a stochastic basis using 1,000 risk neutral equity scenarios. The cash flows are discounted using LIBOR plus a credit spread. Best estimate assumptions are used for partial withdrawals, lapses, expenses and asset earned rate with a risk margin applied to each. These assumptions are reviewed annually as a part of the formal unlocking process.

Included in the chart below, are current key assumptions which include risk margins for the Company. These assumptions are reviewed for reasonableness on a quarterly basis.

Asset Earned Rate	6.10%
Admin Expense per Policy	\$95
Partial Withdrawal Rate (for ages less than 70)	1.65%
Partial Withdrawal Rate (for ages 70 and greater)	4.40%
Mortality	65% of 94 MGDB table
Lapse	2% to 50% depending on the surrender charge period
Return on Assets	1.5% to 1.85% depending on the guarantee period

The discount rate for the equity indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for June 30, 2010, ranged from a one month rate of 1.54%, a 5 year rate of 3.78%, and a 30 year rate of 5.42%.

Separate Accounts

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

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended June 30, 2010, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains (losses) 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							
Residential mortgage-backed securities	\$ 22	\$	\$	\$ (1)	\$	\$ 21	\$
Commercial mortgage-backed securities				39,952		39,952	
Other asset-backed securities	599,116		(1,759)	(66)		597,291	
U.S. government-related securities	15,151		(6)	4		15,149	
States, municipals, and political subdivisions	86			(4)		82	
Other government-related securities							
Corporate bonds	95,367		(2,615)	15,624		108,376	
Total fixed maturity securities - available-for-sale	709,742		(4,380)	55,509		760,871	
Fixed maturity securities - trading							
Residential mortgage-backed securities	3,563	(28)		(3,535)			
Commercial mortgage-backed securities							
Other asset-backed securities	48,450	(1,451)		14,138		61,137	(1,451)
U.S. government-related securities	3,310	254		(2)		3,562	253
States, municipals and political subdivisions							
Other government-related securities							
Corporate bonds	26,971	404		(199)	(27,133)	43	(1)
Total fixed maturity securities - trading	82,294	(821)		10,402	(27,133)	64,742	(1,199)
Total fixed maturity securities	792,036	(821)	(4,380)	65,911	(27,133)	825,613	(1,199)
Equity securities	71,397	4		1,736		73,137	
Other long-term investments (1)	16,962	(7,431)				9,531	(7,431)
Short-term investments							
Total investments	880,395	(8,248)	(4,380)	67,647	(27,133)	908,281	(8,630)
Total assets measured at fair value on a recurring basis	\$ 880,395	\$ (8,248)	\$ (4,380)	\$ 67,647	\$ (27,133)	\$ 908,281	\$ (8,630)
Liabilities:							
Annuity account balances (2)	\$ 150,630	\$ (738)	\$	\$ 1,928	\$	\$ 149,440	\$
Other liabilities (1)	128,235	(104,962)				233,197	(104,962)

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Total liabilities measured at fair value on a recurring basis	\$	278,865	\$	(105,700)	\$	1,928	\$	382,637	\$	(104,962)
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(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

For the three months ended June 30, 2010, no securities were transferred into Level 3.

For the three months ended June 30, 2010, \$27.1 million of securities were transferred out of Level 3. This amount was transferred entirely to Level 2. These transfers resulted from securities that were previously valued using an internal model that utilized significant unobservable inputs but were valued by independent pricing services or brokers, utilizing no significant unobservable inputs, as of June 30, 2010.

For the three months ended June 30, 2010, there were no transfers between Level 1 and 2.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended June 30, 2009, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains (losses) 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							
Residential mortgage-backed securities	\$ 32	\$	\$	\$ (2)	\$	\$ 30	\$
Commercial mortgage-backed securities	851,721		(24,517)	(9,619)		817,585	
Other asset-backed securities	705,397		19,011	(222)		724,186	
U.S. government-related securities	24,792		(559)	5	(9,178)	15,060	
States, municipals, and political subdivisions	93			(4)		89	
Other government-related securities							
Corporate bonds	69,388	(153)	(1,255)	1,537		69,517	
Total fixed maturity securities - available-for-sale	1,651,423	(153)	(7,320)	(8,305)	(9,178)	1,626,467	
Fixed maturity securities - trading	39,008	3,044		44,281	22	86,355	3,016
Total fixed maturity securities	1,690,431	2,891	(7,320)	35,976	(9,156)	1,712,822	3,016
Equity securities	69,083		335	(34)		69,384	
Other long-term investments (1)	278,916	(122,530)				156,386	(122,530)
Short-term investments	837		(70)		(103)	664	
Total investments	2,039,267	(119,639)	(7,055)	35,942	(9,259)	1,939,256	(119,514)
Total assets measured at fair value on a recurring basis	\$ 2,039,267	\$ (119,639)	\$ (7,055)	\$ 35,942	\$ (9,259)	\$ 1,939,256	\$ (119,514)
Liabilities:							
Annuity account balances (2)	\$ 152,826	\$ (2,214)	\$	\$ 2,613	\$	\$ 152,427	\$
Other liabilities (1)	54,877	(11,254)				66,131	(11,254)
Total liabilities measured at fair value on a recurring basis	\$ 207,703	\$ (13,468)	\$	\$ 2,613	\$	\$ 218,558	\$ (11,254)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the six months ended June 30, 2010, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains (losses) 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							
Residential mortgage-backed securities	\$ 23	\$ 4	\$	\$ (6)	\$	\$ 21	\$
Commercial mortgage-backed securities	844,535		38,281	(842,864)(3)		39,952	
Other asset-backed securities	693,930	5,868	(3,696)	(89,473)	(9,338)	597,291	
U.S. government-related securities	15,102		40	7		15,149	
States, municipals, and political subdivisions	86			(4)		82	
Other government-related securities							
Corporate bonds	86,328		3,166	18,732	150	108,376	
Total fixed maturity securities - available-for-sale	1,640,004	5,872	37,791	(913,608)	(9,188)	760,871	
Fixed maturity securities - trading							
Residential mortgage-backed securities	7,244	(1)		(3,855)	(3,388)		
Commercial mortgage-backed securities							
Other asset-backed securities	47,509	(755)		14,383		61,137	(985)
U.S. government-related securities	3,310	255		(3)		3,562	255
States, municipals and political subdivisions	4,994	77			(5,071)		
Other government-related securities	41,965	1,058		(47)	(42,976)		
Corporate bonds	67	322		26,787	(27,133)	43	(1)
Total fixed maturity securities - trading	105,089	956		37,265	(78,568)	64,742	(731)
Total fixed maturity securities	1,745,093	6,828	37,791	(876,343)	(87,756)	825,613	(731)
Equity securities	70,708	4		2,425		73,137	
Other long-term investments							
(1)	16,525	(6,994)				9,531	(6,994)
Short-term investments							
Total investments	1,832,326	(162)	37,791	(873,918)	(87,756)	908,281	(7,725)
Total assets measured at fair value on a recurring basis	\$ 1,832,326	\$ (162)	\$ 37,791	\$ (873,918)	\$ (87,756)	\$ 908,281	\$ (7,725)
Liabilities:							
Annuity account balances (2)	\$ 149,893	\$ (2,841)	\$	\$ 3,294	\$	\$ 149,440	\$
Other liabilities (1)	105,838	(127,359)				233,197	(127,359)

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Total liabilities measured at fair value on a recurring basis	\$	255,731	\$	(130,200)	\$	3,294	\$	382,637	\$	(127,359)
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(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

(3) Represents mortgage loan held by the trusts that have been consolidated upon the adoption of ASU No. 2009-17. See Note 4, *Variable Interest Entities*.

For the six months ended June 30, 2010, \$0.2 million of securities were transferred into Level 3. This amount was transferred entirely from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous quarters, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of June 30, 2010.

For the six months ended June 30, 2010, \$87.9 million of securities were transferred out of Level 3. This amount was transferred entirely to Level 2. These transfers resulted from securities that were previously valued using an internal model that utilized significant unobservable inputs but were valued by independent pricing services or brokers, utilizing no significant unobservable inputs, as of June 30, 2010.

For the six months ended June 30, 2010, there were no transfers between Level 1 and 2.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the six months ended June 30, 2009, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains (losses) 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							
Residential mortgage-backed securities	\$ 34	\$	\$	\$ (4)	\$	\$ 30	\$
Commercial mortgage-backed securities	855,817		(22,438)	(15,794)		817,585	
Other asset-backed securities	682,710	(31)	41,972	(465)		724,186	
U.S. government-related securities	10,072		(701)	14,867	(9,178)	15,060	
States, municipals, and political subdivisions	93			(4)		89	
Other government-related securities							
Corporate bonds	78,770	(49)	(176)	(30,473)	21,445	69,517	
Total fixed maturity securities - available-for-sale	1,627,496	(80)	18,657	(31,873)	12,267	1,626,467	
Fixed maturity securities - trading	32,645	3,537		75,493	(25,320)	86,355	3,104
Total fixed maturity securities	1,660,141	3,457	18,657	43,620	(13,053)	1,712,822	3,104
Equity securities	76,411		566	(7,593)		69,384	
Other long-term investments (1)	256,973	(100,587)				156,386	(100,587)
Short-term investments	1,161		(286)		(211)	664	
Total investments	1,994,686	(97,130)	18,937	36,027	(13,264)	1,939,256	(97,483)
Total assets measured at fair value on a recurring basis	\$ 1,994,686	\$ (97,130)	\$ 18,937	\$ 36,027	\$ (13,264)	\$ 1,939,256	\$ (97,483)
Liabilities:							
Annuity account balances (2)	\$ 152,762	\$ (1,268)	\$	\$ 1,603	\$	\$ 152,427	\$
Other liabilities (1)	113,311	47,180				66,131	47,180
Total liabilities measured at fair value on a recurring basis	\$ 266,073	\$ 45,912	\$	\$ 1,603	\$	\$ 218,558	\$ 47,180

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

Total realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either realized investment gains (losses) within the consolidated 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.

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.

Table of Contents*Estimated Fair Value of Financial Instruments*

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

	June 30, 2010		As of December 31, 2009	
	Carrying Amounts	Fair Values (Dollars In Thousands)	Carrying Amounts	Fair Values
Assets:				
Mortgage loans on real estate	\$ 4,905,276	\$ 5,470,846	\$ 3,883,414	\$ 4,130,285
Policy loans	775,105	775,105	794,276	794,276
Liabilities:				
Stable value product account balances	\$ 3,487,963	\$ 3,686,950	\$ 3,581,150	\$ 3,758,422
Annuity account balances	10,309,546	10,207,819	9,911,040	9,655,208
Mortgage loan backed certificates	85,873	88,489		
Debt:				
Bank borrowings	\$ 115,000	\$ 115,000	\$ 285,000	\$ 285,000
Senior and Medium-Term Notes	1,359,852	1,430,931	1,359,852	1,331,855
Subordinated debt securities	524,743	489,345	524,743	453,523
Non-recourse funding obligations	556,600	354,429	575,000	408,727

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

Fair Value Measurements*Mortgage loans on real estate*

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

Policy loans

The Company believes the fair value of policy loans approximates book value. Policy loans are funds provided to policy holders in return for a claim on the account value of the policy. The funds provided are limited to a certain percent of the account balance. The nature of policy loans is

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to have low default risk as the loans are fully collateralized by the value of the policy. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policy account balance. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value.

Stable value product and Annuity account balances

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

Bank borrowings

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

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Non-recourse funding obligations

As of June 30, 2010, the Company estimated the fair value of its non-recourse funding obligations using internal discounted cash flow models. The discount rates used in the model were based on a current market yield for similar financial instruments.

14. 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. Outstanding credit default swaps relate to the Investment Grade Series 9 Index and have terms to December 2017. 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 \$25.0 million. As of June 30, 2010, the fair value of the credit derivatives was a liability of \$3.0 million. As of June 30, 2010, the Company had collateral of \$3.3 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 no additional payments.

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 \$25.0 million notional of credit default swaps is not indicative of the economic value of the investment.

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The Company records its derivative instruments in the consolidated condensed balance sheet in other long-term investments and other liabilities in accordance with GAAP, which requires that all derivative instruments be recognized in the balance sheet at fair value. The accounting for GAAP 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

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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 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. As of June 30, 2010, the Company did not hold any positions in these swaps. For the six months ended June 30, 2009, the Company recognized pre-tax losses of \$0.1 million representing the change in value of these derivatives and related net settlements.

- The Company uses interest rate futures to mitigate interest rate risk. There were no outstanding positions as of June 30, 2010. For the three and six months ended June 30, 2009, the Company recognized pre-tax gains of \$4.6 million and \$6.9 million, respectively, as a result of changes in value of these futures positions.

- The Company uses certain interest rate swaps to mitigate interest rate risk related to floating rate exposures. The Company recognized pre-tax losses of \$6.4 million and \$8.8 million for the three and six months ended June 30, 2010 and pre-tax gains of \$22.2 million and \$36.4 million on interest rate swaps for the three and six months ended June 30, 2009, respectively.

- The Company uses other swaps and options to manage risk related to other exposures. The Company recognized pre-tax gains that were immaterial for the three months ended June 30, 2010, and pre-tax gains of \$0.8 million for the six months ended June 30, 2010. The

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Company recognized pre-tax gains of \$2.2 million for the three and six months ended June 30, 2009, respectively, for the change in fair value of these derivatives.

- The Company is involved in various modified coinsurance and funds withheld arrangements which contain embedded derivatives that must be reported at fair value. Changes in fair value are recorded in current period earnings. The investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had mark-to-market changes which substantially offset the gains or losses on these embedded derivatives.
- The Company markets certain variable annuity products with a GMWB rider. The GMWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract. The Company recognized pre-tax losses of \$49.3 million and \$40.2 million for the three and six months ended June 30, 2010 and pre-tax gains of \$12.5 million and \$32.3 million for three and six months ended June 30, 2009, related to these embedded derivatives, respectively.
- The Company entered into credit default swaps and various other derivative positions to enhance the return on its investment portfolio. The Company reported net pre-tax losses of \$1.1 million and \$0.6 million for the three and six months ended June 30, 2010 and pre-tax gains of \$6.9 million and \$2.6

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million for the three and six months ended June 30, 2009, related to credit default swaps, respectively, from the change in swaps fair value and premium income.

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

	As of June 30, 2010		As of December 31, 2009	
	Notional Amount	Fair Value	Notional Amount	Fair Value
(Dollars In Thousands)				
Other long-term investments				
Derivatives not designated as hedging instruments:(1)				
Interest rate	\$ 25,000	\$ 2,234	\$ 75,000	\$ 16,174
Embedded derivative - Modco reinsurance treaties	29,630	1,802	1,883,109	5,907
Embedded derivative - GMWB	485,442	7,687	429,562	10,579
Other	14,291	1,261	66,250	6,791
	\$ 554,363	\$ 12,984	\$ 2,453,921	\$ 39,451
Other liabilities				
Cash flow hedges:				
Inflation	\$ 293,379	\$ 21,414	\$ 343,526	\$ 19,141
Interest rate	175,000	9,985	175,000	11,965
Derivatives not designated as hedging instruments:(1)				
Credit default swaps	25,000	2,967	25,000	2,172
Interest rate	110,000	10,475	110,000	7,011
Embedded derivative - Modco reinsurance treaties	2,895,101	171,391	1,077,376	81,339
Embedded derivative GMWB	1,286,425	61,734	660,090	24,423
Other	5,916	73	12,703	2,832
	\$ 4,790,821	\$ 278,039	\$ 2,403,695	\$ 148,883

(1) Additional information on derivatives not designated as hedging instruments is referenced under the ASC Derivatives and Hedging Topic.

Gain (Loss) on Derivatives in Cash Flow Hedging Relationship

	For The Three Months Ended June 30, 2010			For The Six Months Ended June 30, 2010		
	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income (loss)	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income (loss)
(Dollars In Thousands)						
Gain (loss) recognized in other comprehensive income (loss) (effective portion):						
Interest rate	\$	\$	\$ (858)	\$	\$	\$ (2,116)

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Inflation				(9,314)					(3,892)
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Gain (loss) reclassified from accumulated other comprehensive income (loss) into income (effective portion):

Interest rate	\$		\$	(1,982)	\$		\$		\$	(3,973)	\$
Inflation				(463)						(1,084)	

Gain (loss) recognized in income (ineffective portion):

Inflation	\$	(696)	\$		\$		\$	(336)	\$		\$
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	For The Three Months Ended June 30, 2009			For The Six Months Ended June 30, 2009		
	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income (loss)	Realized investment gains (losses)	Benefits and settlement expenses	Other comprehensive income (loss)
(Dollars In Thousands)						
Gain (loss) recognized in other comprehensive income (loss) (effective portion):						
Interest rate	\$	\$	\$ (8,810)	\$	\$	\$ 3,864
Inflation			24,038			25,036
Gain (loss) reclassified from accumulated other comprehensive income (loss) into income (effective portion):						
Interest rate	\$	\$ (1,781)	\$	\$	\$ (3,897)	\$
Inflation		(2,623)			(4,469)	
Gain (loss) recognized in income (ineffective portion):						
Inflation	\$ 247	\$	\$	\$ 954	\$	\$

Based on the expected cash flows of the underlying hedged items, the Company expects to reclassify \$7.0 million out of accumulated other comprehensive income (loss) into earnings during the next twelve months.

Realized investment gains (losses) - derivative financial instruments(1)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
(Dollars In Thousands)				
Interest rate risk:				
Interest rate futures	\$	\$ 4,593	\$	\$ 6,889
Interest rate swaps	(6,382)	22,169	(8,774)	36,359
Credit risk	(1,142)	6,887	(637)	2,551
Embedded derivative - Modco reinsurance treaties	(63,063)	(146,420)	(94,157)	(85,788)
Embedded derivative - GMWB	(49,326)	12,636	(40,202)	32,381
Other	25	2,144	810	2,050
	\$ (119,888)	\$ (97,991)	\$ (142,960)	\$ (5,558)

(1) Additional information on derivatives not designated as hedging instruments is referenced under the ASC Derivatives Hedging Topic.

Realized investment gains (losses) - all other investments

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars In Thousands)			
Fixed income Modco trading portfolio(1)	\$ 63,967	\$ 154,786	\$ 108,060	\$ 108,908

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

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15. OPERATING SEGMENTS

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

- The Life Marketing segment markets level premium term insurance (traditional), universal life, 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 Acquisitions 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 markets 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 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 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 (including the impact of carrying excess liquidity), expenses not attributable to the segments above (including 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 or runoff lines of business, 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 available to PLC's common shareowners and assets. Segment operating income (loss) is income before income tax

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excluding net realized investment gains and losses (net of the related amortization of deferred acquisition costs (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 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.

During the first quarter of 2010, the Company recorded a \$7.8 million decrease in reserves related to the final settlement in the runoff Lender's Indemnity line of business.

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There were no significant intersegment transactions during the six months ended June 30, 2010 and 2009.

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
(Dollars In Thousands)				
Revenues				
Life Marketing	\$ 298,128	\$ 267,194	\$ 607,132	\$ 549,045
Acquisitions	177,579	201,518	376,296	400,752
Annuities	85,475	134,485	226,055	264,430
Stable Value Products	37,273	57,490	85,229	124,054
Asset Protection	67,769	68,148	134,200	135,003
Corporate and Other	45,878	56,496	74,960	34,012
Total revenues	\$ 712,102	\$ 785,331	\$ 1,503,872	\$ 1,507,296
Segment Operating Income (Loss)				
Life Marketing	\$ 35,755	\$ 37,179	\$ 76,433	\$ 79,689
Acquisitions	30,190	35,041	61,559	68,662
Annuities	605	21,495	18,792	20,920
Stable Value Products	10,979	16,976	22,006	37,183
Asset Protection	6,616	4,656	19,683	10,936
Corporate and Other	377	9,648	(15,755)	401
Total segment operating income	84,522	124,995	182,718	217,791
Realized investment (losses) gains - investments(1)(3)	50,578	127,770	86,394	(3,977)
Realized investment (losses) gains - derivatives(2)	(70,513)	(112,547)	(103,176)	(41,440)
Income tax expense	(23,216)	(49,461)	(54,786)	(59,482)
Net income available to PLC's common shareowners	\$ 41,371	\$ 90,757	\$ 111,150	\$ 112,892
(1) Realized investment (losses) gains - investments	\$ 50,906	\$ 126,828	\$ 86,936	\$ (4,841)
Less: related amortization of DAC/VOBA	328	(942)	542	(864)
	\$ 50,578	\$ 127,770	\$ 86,394	\$ (3,977)
(2) Realized investment gains (losses) - derivatives	\$ (119,888)	\$ (97,991)	\$ (142,960)	\$ (5,558)
Less: settlements on certain interest rate swaps	42	1,163	84	3,401
Less: derivative activity related to certain annuities	(49,417)	13,393	(39,868)	32,481
	\$ (70,513)	\$ (112,547)	\$ (103,176)	\$ (41,440)

(3) Includes other-than-temporary impairments of \$16.8 million and \$28.7 million for the three and six months ended June 30, 2010, respectively, and \$41.0 million and \$130.8 million for the three and six months ended June 30, 2009, respectively.

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Operating Segment Assets As of June 30, 2010 (Dollars In Thousands)				
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	\$ 9,224,655	\$ 9,097,376	\$ 11,086,864	\$ 3,477,711
Deferred policy acquisition costs and value of business acquired	2,340,699	803,487	425,049	10,252
Goodwill	10,192	43,362		
Total assets	\$ 11,575,546	\$ 9,944,225	\$ 11,511,913	\$ 3,487,963

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	\$ 704,043	\$ 7,173,071	\$ 25,056	\$ 40,788,776
Deferred policy acquisition costs and value of business acquired	87,790	3,876		3,671,153
Goodwill	62,670	83		116,307
Total assets	\$ 854,503	\$ 7,177,030	\$ 25,056	\$ 44,576,236

Operating Segment Assets As of December 31, 2009 (Dollars In Thousands)				
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	\$ 8,753,212	\$ 9,136,474	\$ 9,977,456	\$ 3,569,038
Deferred policy acquisition costs and value of business acquired	2,277,256	839,829	430,704	12,112
Goodwill	10,192	44,911		
Total assets	\$ 11,040,660	\$ 10,021,214	\$ 10,408,160	\$ 3,581,150

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	\$ 742,456	\$ 6,325,373	\$ 26,372	\$ 38,530,381
Deferred policy acquisition costs and value of business acquired	97,499	5,950		3,663,350
Goodwill	62,670	83		117,856
Total assets	\$ 902,625	\$ 6,331,406	\$ 26,372	\$ 42,311,587

16. SUBSEQUENT EVENTS

On August 2, 2010, the Company provided each of its current directors an indemnity agreement that provides, among other things and subject to certain limitations, a contractual right to indemnification to the fullest extent permissible under the law and to indemnification in accordance with the Company's governance documents in effect on August 2, 2010, or any other governance provision in effect thereafter during the director's term, provided however that no modification or amendment to any governance document of the Company shall in any way adversely affect the director's rights under the indemnity agreement. Also on August 2, 2010, prior indemnification agreements obligating the Company to obtain a \$20 million letter of credit for the benefit of directors under certain change of control events were terminated.

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The Company has evaluated the effects of events subsequent to June 30, 2010, and through the date we filed our consolidated condensed financial statements with the United States Securities and Exchange Commission. All accounting and disclosure requirements related to subsequent events are included in our consolidated condensed financial statements.

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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, 2009, 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

OVERVIEW

Our business

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

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

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

- **Life Marketing** - We market 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 that were 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 market 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 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 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 (including the impact of carrying excess liquidity), expenses not attributable to the segments above (including 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 or runoff lines of business, various investment-related transactions, and the operations of several small subsidiaries.

EXECUTIVE SUMMARY

We delivered solid financial results in the first half of 2010. Excluding fair value items, our operating segments (excluding Corporate and Other) produced results that were in line with or exceeded our expectations. While we were impacted by negative fair value items in the second quarter of 2010, mortality continued a favorable trend in both the first and second quarters and we were able to take advantage of depressed market valuations and repurchased portions of our outstanding non-recourse funding obligations at a significant discount. In addition, we continued our strategy of growth in the Annuities segment and are encouraged by the results of moving our life sales product mix to a universal life product focus.

As we look to the remainder of the year, we recognize that we will be challenged to find opportunities to invest our excess liquidity at desired yield levels. However, we remain focused on this goal and others, including introducing innovative, differentiated products to our markets, optimizing capital deployment, managing crediting rates and growing our distribution networks.

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

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RISKS AND UNCERTAINTIES

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

General

- exposure to the risks of natural and man-made catastrophes, pandemics, malicious acts, terrorist acts, or climate change 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;
- our strategies for mitigating risks arising from our day-to-day operations may prove ineffective and adversely affect our results of operations and financial condition;

Financial environment

- interest rate fluctuations could negatively affect our interest earnings and 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;

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- 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;
- our financial condition or results of operations could be adversely impacted if our assumptions regarding the fair value and future performance of our investments differ from actual experience;
- the amount of statutory capital we have and must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control;
- we are a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations and pay dividends;

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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

- we operate in a mature, highly competitive industry, which could limit our ability to gain or maintain our position in the industry and negatively affect profitability;
- our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business;
- 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 and our Annual Reports on Forms 10-K.

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 condensed financial statements. For a complete listing of our critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2009.

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 deferred acquisitions costs (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 usually attributable to the normal, recurring operations of our business. However, segment operating income (loss) should not be viewed as a substitute for accounting principles generally accepted in the United States of America (GAAP) net income available to PLC's common shareowners. 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 available to PLC's common shareowners:

	For The Three Months Ended June 30,			Change	For The Six Months Ended June 30,		
	2010 (Dollars In Thousands)	2009			2010 (Dollars In Thousands)	2009	Change
Segment Operating Income (Loss)							
Life Marketing	\$ 35,755	\$ 37,179	(3.8)%	\$ 76,433	\$ 79,689	(4.1)%	
Acquisitions	30,190	35,041	(13.8)	61,559	68,662	(10.3)	
Annuities	605	21,495	(97.2)	18,792	20,920	(10.2)	
Stable Value Products	10,979	16,976	(35.3)	22,006	37,183	(40.8)	
Asset Protection	6,616	4,656	42.1	19,683	10,936	80.0	
Corporate and Other	377	9,648	(96.1)	(15,755)	401	n/m	
Total segment operating income	84,522	124,995	(32.4)	182,718	217,791	(16.1)	
Realized investment gains (losses) - investments(1)(3)	50,578	127,770		86,394	(3,977)		
Realized investment gains (losses) - derivatives(2)	(70,513)	(112,547)		(103,176)	(41,440)		
Income tax expense	(23,216)	(49,461)		(54,786)	(59,482)		
Net income available to PLC's common shareowners	\$ 41,371	\$ 90,757	(54.4)	\$ 111,150	\$ 112,892	(1.5)	
(1) Realized investment gains (losses) - investments(3)	\$ 50,906	\$ 126,828		\$ 86,936	\$ (4,841)		
Less: related amortization of DAC/VOBA	328	(942)		542	(864)		
	\$ 50,578	\$ 127,770		\$ 86,394	\$ (3,977)		
(2) Realized investment gains (losses) - derivatives	\$ (119,888)	\$ (97,991)		\$ (142,960)	\$ (5,558)		
Less: settlements on certain interest rate swaps	42	1,163		84	3,401		
Less: derivative activity related to certain annuities	(49,417)	13,393		(39,868)	32,481		
	\$ (70,513)	\$ (112,547)		\$ (103,176)	\$ (41,440)		

(3) Includes other-than-temporary impairments of \$16.8 million and \$28.7 million for the three and six months ended June 30, 2010, respectively, and \$41.0 million and \$130.8 million for the three and six months ended June 30, 2009, respectively.

For The Three Months Ended June 30, 2010 as compared to The Three Months Ended June 30, 2009

Net income available to PLC's common shareowners for the three months ended June 30, 2010, included a \$40.5 million, or 32.4%, decrease in segment operating income. The decrease was primarily related to a \$1.4 million decrease in the Life Marketing segment, a \$4.9 million decrease in the Acquisitions segment, a \$20.9 million decrease in operating income in the Annuities segment, a \$6.0 million decrease in the Stable Value Products segment, and a \$9.3 million decrease in the Corporate and Other segment. These decreases were partially offset by an increase of \$2.0 million in operating income in the Asset Protection segment. Changes in fair value related to the Corporate and Other trading portfolio and the

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Annuities segment decreased operating earnings by \$19.1 million in the three months ended June 30, 2010, and fair value changes represented \$48.7 million of the overall decrease in segment operating income compared to the same quarter last year.

We experienced net realized losses of \$69.0 million for the three months ended June 30, 2010, as compared to net realized gains of \$28.8 million for the three months ended June 30, 2009. The losses realized for the three months ended June 30, 2010, were primarily caused by \$49.3 million of losses related to guaranteed minimum withdrawal benefits (GMWB) embedded derivative valuation changes and \$16.8 million of other-than-temporary impairment credit-related losses and mark-to-market losses of \$6.4 million on interest rate swaps. Offsetting these losses were \$0.9 million of gains related to the net activity related to the modified coinsurance portfolio and derivative activity and \$5.7 million of gains related to investment securities sale activity.

- Life Marketing segment operating income was \$35.8 million for the three months ended June 30, 2010, representing a decrease of \$1.4 million, or 3.8%, from the three months ended June 30, 2009. The decrease was primarily due to lower allocated investment income net of interest expense on the traditional line of business and higher operating expenses.

- Acquisitions segment operating income was \$30.2 million for the three months ended June 30, 2010, a decrease of \$4.9 million, or 13.8%, as compared to the three months ended June 30, 2009, primarily due to the expected runoff of the blocks of business.

- Annuities segment operating income was \$0.6 million for the three months ended June 30, 2010, as compared to \$21.5 million for the three months ended June 30, 2009, a decrease of \$20.9 million. This change included an unfavorable \$20.9 million variance related to fair value changes, made up of a \$0.4

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million favorable change related to the equity indexed annuity (EIA) product and a \$21.3 million unfavorable change related to embedded derivatives associated with the variable annuity (VA) GMWB rider, caused primarily by changes in equity markets and lower interest rates. A \$2.9 million increase in earnings was related to wider spreads and average account value growth in fixed and variable annuities.

- Stable Value Products segment operating income was \$11.0 million and decreased \$6.0 million, or 35.3%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The decrease in operating earnings resulted from a decline in average account values and lower operating spreads. In addition, no income was generated from the early retirement of funding agreements backing medium-term notes for the three months ended June 30, 2010, compared with \$0.3 million for the three months ended June 30, 2009. The operating spread decreased 31 basis points to 126 basis points for the three months ended June 30, 2010, as compared to an operating spread of 157 basis points during the three months ended June 30, 2009.

- Asset Protection segment operating income was \$6.6 million, representing an increase of \$2.0 million for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The second quarter 2010 income was comprised solely of \$6.6 million of income from core operations. Credit insurance earnings decreased \$0.4 million as compared to the prior year, primarily due to lower investment income. Service contract earnings increased \$1.1 million, or 30.3%, as compared to the prior year, primarily due to higher volume partially offset by higher loss ratios and higher expenses in certain product lines. Earnings from other products increased \$1.2 million for the three months ended June 30, 2010, as compared to the prior year due to favorable loss experience in the GAP product line.

- Corporate and Other segment operating income was \$0.4 million for the three months ended June 30, 2010, as compared to income of \$9.6 million for the three months ended June 30, 2009. This variance was primarily due to negative mark-to-market adjustments during the second quarter of 2010 on a portfolio of securities designated for trading. The trading portfolio accounted for a negative variance of \$27.8 million, compared to the prior year's quarter. Partially offsetting this was a \$9.5 million pre-tax gain on the repurchase of non-recourse funding obligations and growth in other investment income.

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Net income available to PLC's common shareowners for the six months ended June 30, 2010, included a \$35.1 million, or 16.1%, decrease in segment operating income. The decrease was primarily related to a \$3.3 million decrease in operating income in the Life Marketing segment, a \$7.1 million decrease in the Acquisitions segment, a \$2.1 million decrease in the Annuities segment, a \$15.2 million decrease in the Stable Value Products segment, and a \$16.2 million decrease in the Corporate and Other segment. These decreases were partially offset by an increase of \$8.7 million in operating income in the Asset Protection segment. Changes in fair value related to the Corporate and Other trading portfolio and the Annuities segment decreased operating earnings by \$7.5 million in the six months ended June 30, 2010.

We experienced net realized losses of \$56.0 million for the six months ended June 30, 2010, as compared to net realized losses of \$10.4 million for the six months ended June 30, 2009. The losses realized for the six months ended June 30, 2010, were primarily caused by \$40.2 million of losses related to guaranteed minimum withdrawal benefits (GMWB) embedded derivative valuation changes and \$28.7 million of other-than-temporary impairment credit-related losses and mark-to-market losses of \$8.8 million on interest rate swaps. Offsetting these losses were \$13.9 million of gains related to the net activity related to the modified coinsurance portfolio and derivative activity and \$12.4 million of gains related to investment securities sale activity.

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- Life Marketing segment operating income was \$76.4 million for the six months ended June 30, 2010, representing a decrease of \$3.3 million, or 4.1%, from the six months ended June 30, 2009. The decrease was primarily due to lower allocated investment income on the traditional line of business, net of interest expense, and higher operating expenses, partially offset by more favorable mortality results.
- Acquisitions segment operating income was \$61.6 million for the six months ended June 30, 2010, a decrease of \$7.1 million, or 10.3%, as compared to the six months ended June 30, 2009, primarily due to the expected runoff of the blocks of business.

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- Annuities segment operating income was \$18.8 million for the six months ended June 30, 2010, as compared to \$20.9 million for the six months ended June 30, 2009, a decrease of \$2.1 million. This change included an unfavorable \$28.3 million variance related to fair value changes, of which \$1.8 million was related to the EIA product and \$26.5 million was related to embedded derivatives associated with the VA GMWB rider, caused primarily by changes in equity markets and lower interest rates. The remaining \$26.2 million variance in operating income was primarily driven by a \$19.3 million unlocking charge recorded within the VA line during the six months ended June 30, 2009. Other items accounted for the remainder of the variance, including a \$6.4 million increase in earnings related to wider spreads and average account value growth in fixed and variable annuities.
- Stable Value Products segment operating income was \$22.0 million and decreased \$15.2 million, or 40.8%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The decrease in operating earnings resulted from a decline in average account values and lower operating spreads. In addition, no income was generated from the early retirement of funding agreements backing medium-term notes for the six months ended June 30, 2010, compared with \$1.9 million for the six months ended June 30, 2009. The operating spread decreased 35 basis points to 126 basis points for the six months ended June 30, 2010, as compared to an operating spread of 161 basis points during the six months ended June 30, 2009.
- Asset Protection segment operating income was \$19.7 million, representing an increase of \$8.7 million for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. Income for the six months ended June 30, 2010, was comprised of \$12.1 million of income from core operations and \$7.6 million of income from runoff lines. Credit insurance earnings decreased \$1.9 million as compared to the prior year, primarily due to unfavorable loss experience and lower investment income. Service contract earnings increased \$0.6 million, or 7.3%, as compared to the prior year. Earnings from other products, including runoff lines, increased \$10.0 million for the six months ended June 30, 2010 as compared to the prior year. The increase resulted primarily from a \$7.8 million excess reserve release in the first quarter of 2010 related to the final settlement in the runoff Lender's Indemnity line of business. Favorable loss experience in the GAP product line also contributed to the increase.
- Corporate and Other segment operating loss was \$15.8 million for the six months ended June 30, 2010, as compared to income of \$0.4 million for the six months ended June 30, 2009. This variance was primarily due to a negative variance related to mark-to-market adjustments on a portfolio of securities designated for trading. The trading portfolio accounted for a negative variance of \$27.1 million compared to the prior year. Partially offsetting this was a \$9.5 million pre-tax gain on the repurchase of non-recourse funding obligations and growth in other investment income.

Table of Contents**Life Marketing***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended June 30,			Change (Dollars In Thousands)	For The Six Months Ended June 30,			Change
	2010	2009			2010	2009		
REVENUES								
Gross premiums and policy fees	\$ 407,900	\$ 397,195	2.7%	\$ 781,290	\$ 772,853		1.1%	
Reinsurance ceded	(227,543)	(241,002)	(5.6)	(404,295)	(448,166)		(9.8)	
Net premiums and policy fees	180,357	156,193	15.5	376,995	324,687		16.1	
Net investment income	94,763	90,833	4.3	185,907	184,360		0.8	
Other income	23,008	20,168	14.1	44,230	39,998		10.6	
Total operating revenues	298,128	267,194	11.6	607,132	549,045		10.6	
BENEFITS AND EXPENSES								
Benefits and settlement expenses	217,032	189,101	14.8	437,588	384,511		13.8	
Amortization of deferred policy acquisition costs	30,892	33,404	(7.5)	64,970	69,132		(6.0)	
Other operating expenses	14,449	7,510	92.4	28,141	15,713		79.1	
Total benefits and expenses	262,373	230,015	14.1	530,699	469,356		13.1	
INCOME BEFORE INCOME TAX								
	35,755	37,179	(3.8)	76,433	79,689		(4.1)	
OPERATING INCOME	\$ 35,755	\$ 37,179	(3.8)	\$ 76,433	\$ 79,689		(4.1)	

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

	For The Three Months Ended June 30,			Change (Dollars In Thousands)	For The Six Months Ended June 30,			Change
	2010	2009			2010	2009		
Sales By Product								
Traditional	\$ 17,627	\$ 26,102	(32.5)%	\$ 38,391	\$ 49,253		(22.1)%	
Universal life	23,951	12,796	87.2	45,218	25,615		76.5	
Variable universal life	1,334	854	56.2	2,270	1,496		51.7	
	\$ 42,912	\$ 39,752	7.9	\$ 85,879	\$ 76,364		12.5	
Sales By Distribution Channel								
Brokerage general agents	\$ 26,654	\$ 25,783	3.4	\$ 53,005	\$ 47,247		12.2	
Independent agents	6,254	7,084	(11.7)	12,945	14,364		(9.9)	
Stockbrokers / banks	8,031	6,509	23.4	17,002	13,682		24.3	
BOLI / other	1,973	376	n/m	2,927	1,071		n/m	
	\$ 42,912	\$ 39,752	7.9	\$ 85,879	\$ 76,364		12.5	

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Average Life Insurance In-force(1)

Traditional	\$ 497,366,086	\$ 487,972,776	1.9	\$ 497,143,901	\$ 485,862,761	2.3
Universal life	54,125,544	53,163,035	1.8	53,884,068	53,067,391	1.5
	\$ 551,491,630	\$ 541,135,811	1.9	\$ 551,027,969	\$ 538,930,152	2.2

Average Account Values

Universal life	\$ 5,515,913	\$ 5,354,527	3.0	\$ 5,465,071	\$ 5,353,024	2.1
Variable universal life	319,278	242,168	31.8	317,522	244,311	30.0
	\$ 5,835,191	\$ 5,596,695	4.3	\$ 5,782,593	\$ 5,597,335	3.3

Traditional Life Mortality

Experience(2)	\$ 8,152	\$ 8,356		\$ 21,201	\$ 8,902	
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Universal Life Mortality

Experience(2)	\$ 1,521	\$ 1,504		\$ 2,957	\$ 2,991	
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(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.

Table of Contents*Operating expenses detail*

Other operating expenses for the segment were as follows:

	For The Three Months Ended June 30,			Change (Dollars In Thousands)	For The Six Months Ended June 30,		
	2010	2009			2010	2009	Change
Insurance Companies:							
First year commissions	\$ 51,844	\$ 44,801	15.7%	\$ 103,501	\$ 87,177	18.7%	
Renewal commissions	9,142	9,211	(0.7)	17,756	18,298	(3.0)	
First year ceding allowances	(2,390)	(5,093)	(53.1)	(4,478)	(9,402)	(52.4)	
Renewal ceding allowances	(48,356)	(57,026)	(15.2)	(94,226)	(108,070)	(12.8)	
General & administrative	41,694	38,335	8.8	81,599	74,957	8.9	
Taxes, licenses, and fees	8,536	7,451	14.6	16,519	14,752	12.0	
Other operating expenses incurred	60,470	37,679	60.5	120,671	77,712	55.3	
Less: commissions, allowances & expenses capitalized	(68,171)	(50,461)	35.1	(135,584)	(101,970)	33.0	
Other insurance company operating expenses	(7,701)	(12,782)	(39.8)	(14,913)	(24,258)	(38.5)	
Marketing Companies:							
Commissions	17,314	14,978	15.6	33,212	29,663	12.0	
Other operating expenses	4,836	5,314	(9.0)	9,842	10,308	(4.5)	
Other marketing company operating expenses	22,150	20,292	9.2	43,054	39,971	7.7	
Other operating expenses	\$ 14,449	\$ 7,510	92.4	\$ 28,141	\$ 15,713	79.1	

For The Three Months Ended June 30, 2010 as compared to The Three Months Ended June 30, 2009

Segment operating income

Operating income was \$35.8 million for the three months ended June 30, 2010, representing a decrease of \$1.4 million, or 3.8%, from the three months ended June 30, 2009. The decrease was primarily due to lower allocated investment income net of interest expense on the traditional line of business and higher operating expenses.

Operating revenues

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Total revenues for the three months ended June 30, 2010, increased \$30.9 million, or 11.6%, as compared to the three months ended June 30, 2009. This increase was the result of higher premiums and policy fees in the segment's traditional and universal life lines, higher investment income in the universal life product line due to increases in net in-force reserves and higher sales in the segment's marketing companies and was partially offset by lower investment income on the Company's traditional and BOLI product lines.

Net premiums and policy fees

Net premiums and policy fees increased by \$24.2 million, or 15.5%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to an increase in retention levels on certain traditional life products and continued growth in universal life in-force business. Our maximum retention level for newly issued traditional life and universal life products is generally \$2,000,000.

Net investment income

Net investment income in the segment increased \$3.9 million, or 4.3%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Increased retained traditional and universal life reserves led to increased investment income in the second quarter of 2010 compared to the second quarter of 2009. Decreases in BOLI fund value led to lower BOLI investment income in the same period. In addition, the impact of our traditional and universal life capital markets programs on investment income allocated to the segment caused a reduction of \$0.2 million between the second quarter of 2009 and the second quarter of 2010.

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Other income

Other income increased \$2.8 million, or 14.1%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The increase relates primarily to higher sales levels in the segment's marketing companies.

Benefits and settlement expenses

Benefits and settlement expenses increased by \$27.9 million, or 14.8%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, 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 June 30, 2010, was favorable by \$9.7 million and was approximately \$0.2 million less favorable than the estimated mortality impact on earnings for the three months ended June 30, 2009.

Amortization of DAC

DAC amortization decreased \$2.5 million, or 7.5%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The decrease primarily relates to more favorable unlocking on UL and BOLI business partially offset by growth in retained life insurance in-force as compared to 2009.

Other operating expenses

Other operating expenses increased \$6.9 million, or 92.4%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. This increase reflects higher marketing company expenses associated with higher broker dealer sales, higher general administrative expenses, a reduction in reinsurance allowances, and interest expense of \$2.9 million associated with Golden Gate III Vermont Captive Insurance Company (Golden Gate III), a newly formed, wholly owned subsidiary of PLICO.

Sales

Sales for the segment increased \$3.2 million, or 7.9%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, as increased universal life sales more than offset lower traditional sales. Lower sales levels of traditional products were primarily the result of pricing changes implemented on certain of our products resulting in less competitive product positioning and greater focus on the universal life product line. Universal life sales increased \$11.2 million, or 87.2%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to our increased focus on the product line.

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Segment operating income

Operating income was \$76.4 million for the six months ended June 30, 2010, representing a decrease of \$3.3 million, or 4.1%, from the six months ended June 30, 2009. The decrease was primarily due to lower allocated investment income on the traditional line of business net of interest expense, and higher operating expenses, partially offset by more favorable mortality results.

Operating revenues

Total revenues for the six months ended June 30, 2010, increased \$58.1 million, or 10.6%, as compared to the six months ended June 30, 2009. This increase was the result of higher premiums and policy fees in the segment's traditional and universal life lines and higher investment income in the universal life product line due to increases in net in-force reserves and was partially offset by lower sales in the segment's marketing companies and lower investment income on the Company's traditional and BOLI product lines.

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Net premiums and policy fees

Net premiums and policy fees increased by \$52.3 million, or 16.1%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to an increase in retention levels on certain traditional life products and continued growth in universal life in-force business. Our maximum retention level for newly issued traditional life and universal life products is generally \$2,000,000.

Net investment income

Net investment income in the segment increased \$1.5 million, or 0.8%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. Increased retained universal life reserves led to increased investment income for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. Decreases in BOLI fund value led to lower BOLI investment income in the same period. Traditional life statutory reserving methodology changes have reduced our statutory reserves, thus reducing the investment income allocated to the segment in the first quarter of 2010 compared to the first quarter of 2009. Growth in retained traditional reserves between the second quarter of 2009 and the second quarter of 2010, caused higher allocated investment income which partially offset the first quarter decrease. In addition, the impact of our traditional and universal life capital markets programs on investment income allocated to the segment caused a reduction of \$5.3 million between 2009 and 2010.

Other income

Other income increased \$4.2 million, or 10.6%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The increase relates primarily to higher sales in marketing companies, fees on variable universal life funds, and interest on modified coinsurance transactions.

Benefits and settlement expenses

Benefits and settlement expenses increased by \$53.1 million, or 13.8%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, 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, partially offset by more favorable mortality. The estimated mortality impact to earnings related to traditional and universal life products, for the six months ended June 30, 2010, was favorable by \$24.2 million and was approximately \$12.3 million more favorable than the estimated mortality impact on earnings for the six months ended June 30, 2009.

Amortization of DAC

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DAC amortization decreased \$4.2 million, or 6.0%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The decrease primarily relates to more favorable unlocking on universal life and BOLI business partially offset by growth in retained life insurance in-force as compared to 2009.

Other operating expenses

Other operating expenses increased \$12.4 million, or 79.1%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. This increase reflects higher marketing company expenses associated with higher broker dealer sales, higher general administrative expenses, a reduction in reinsurance allowances, and interest expense of \$2.9 million associated with Golden Gate III.

Sales

Sales for the segment increased \$9.5 million, or 12.5%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, as increased universal life sales more than offset lower traditional sales. Lower sales levels of traditional products were primarily the result of pricing changes implemented on certain of our products resulting in a less competitive product positioning and greater focus on the universal life product line. Universal life sales increased \$19.6 million, or 76.5%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to our increased focus on the product line.

Table of Contents**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 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 universal life-type, limited-payment long duration, and investment contracts 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 DAC amortization on these lines of business. Deferred reinsurance allowances on level term business as required by the ASC Financial Services-Insurance Topic are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in force. Thus, deferred reinsurance allowances on policies as required under the Financial Services-Insurance Topic may impact DAC amortization.

Impact of reinsurance

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

Life Marketing Segment**Line Item Impact of Reinsurance**

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	\$ (227,543)	\$ (241,002)	\$ (404,295)	\$ (448,166)
BENEFITS AND EXPENSES				
Benefit and settlement expenses	(244,737)	(250,250)	(438,742)	(468,889)
Amortization of deferred policy acquisition costs	(12,117)	(16,829)	(19,981)	(29,221)
Other operating expenses (1)	(35,661)	(36,804)	(66,956)	(69,015)
Total benefits and expenses	(292,515)	(303,883)	(525,679)	(567,125)
NET IMPACT OF REINSURANCE (2)	\$ 64,972	\$ 62,881	\$ 121,384	\$ 118,959

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Allowances received	\$	(50,746)	\$	(62,119)	\$	(98,704)	\$	(117,472)
Less: Amount deferred		15,085		25,315		31,748		48,457
Allowances recognized								
(ceded other operating expenses) (1)	\$	(35,661)	\$	(36,804)	\$	(66,956)	\$	(69,015)

(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. The Company estimates that the impact of foregone investment income would reduce the net impact of reinsurance by 90% 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 90% to 130%. The Life Marketing segment's reinsurance programs do not materially impact the other income line of our income statement.

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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 the ASC Financial Services-Insurance Topic.

For The Three Months Ended June 30, 2010 as compared to The Three Months Ended June 30, 2009

The decrease in ceded premiums above for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was caused primarily by lower ceded traditional life premiums and policy fees of \$9.1 million.

Ceded benefits and settlement expenses were lower for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, due to lower increases in ceded reserves and decreased ceded claims. Traditional ceded benefits decreased \$13.3 million for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, due to a lower increase in ceded reserves and lower ceded death benefits. Universal life ceded benefits increased \$7.8 million for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to higher ceded claims. Ceded universal life claims were \$7.2 million higher for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009.

Ceded amortization of deferred policy acquisitions costs decreased for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to the differences in unlocking between the two periods.

Total allowances received for the three months ended June 30, 2010, decreased from the three months ended June 30, 2009, due to the change in our traditional life reinsurance strategy, resulting in an increase in our retention level.

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

The decrease in ceded premiums above for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, was caused primarily by lower ceded traditional life premiums and policy fees of \$37.8 million.

Ceded benefits and settlement expenses were lower for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, due to lower increases in ceded reserves and decreased ceded claims. Traditional ceded benefits decreased \$42.2 million for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, due to a lower increase in ceded reserves and lower ceded death benefits. Universal life ceded benefits increased \$13.0 million for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, as higher ceded claims were partially offset by a lower change in ceded reserves. Ceded universal life claims were \$18.4 million higher for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009.

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Ceded amortization of deferred policy acquisitions costs decreased for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to the differences in unlocking between the two periods.

Total allowances received for the six months ended June 30, 2010, decreased from the six months ended June 30, 2009, due to the change in our traditional life reinsurance strategy, resulting in an increase in our retention level.

Table of Contents**Acquisitions***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended June 30,			Change (Dollars In Thousands)	For The Six Months Ended June 30,			Change
	2010	2009			2010	2009		
REVENUES								
Gross premiums and policy fees	\$ 178,389	\$ 184,484	(3.3)%	\$ 339,110	\$ 363,160		(6.6)%	
Reinsurance ceded	(117,492)	(115,482)	1.7	(210,626)	(225,089)		(6.4)	
Net premiums and policy fees	60,897	69,002	(11.7)	128,484	138,071		(6.9)	
Net investment income	116,748	119,515	(2.3)	232,149	243,056		(4.5)	
Other income	1,375	1,592	(13.6)	2,648	2,995		(11.6)	
Total operating revenues	179,020	190,109	(5.8)	363,281	384,122		(5.4)	
Realized gains (losses) - investments	61,152	157,871		105,671	105,408			
Realized gains (losses) - derivatives	(62,593)	(146,462)		(92,656)	(88,778)			
Total revenues	177,579	201,518		376,296	400,752			
BENEFITS AND EXPENSES								
Benefits and settlement expenses	127,554	135,773	(6.1)	261,028	274,504		(4.9)	
Amortization of deferred policy acquisition costs and value of business acquired	15,868	14,832	7.0	29,063	32,395		(10.3)	
Other operating expenses	5,408	4,463	21.2	11,631	8,561		35.9	
Operating benefits and expenses	148,830	155,068	(4.0)	301,722	315,460		(4.4)	
Amortization of DAC / VOBA related to realized gains (losses) - investments	(266)	(272)		(123)	(94)			
Total benefits and expenses	148,564	154,796	(4.0)	301,599	315,366		(4.4)	
INCOME BEFORE INCOME TAX								
	29,015	46,722	(37.9)	74,697	85,386		(12.5)	
Less: realized gains (losses)	(1,441)	11,409		13,015	16,630			
Less: related amortization of DAC/VOBA	266	272		123	94			
OPERATING INCOME	\$ 30,190	\$ 35,041	(13.8)	\$ 61,559	\$ 68,662		(10.3)	

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The following table summarizes key data for the Acquisitions segment:

	For The Three Months Ended June 30,			Change (Dollars In Thousands)	For The Six Months Ended June 30,			Change
	2010	2009			2010	2009		
Average Life Insurance In-Force(1)								
Traditional	\$ 186,269,289	\$ 199,231,953	(6.5)%	\$ 187,785,103	\$ 200,921,328	(6.5)%		
Universal life	26,952,745	28,486,526	(5.4)	27,138,749	28,722,377	(5.5)		
	\$ 213,222,034	\$ 227,718,479	(6.4)	\$ 214,923,852	\$ 229,643,705	(6.4)		
Average Account Values								
Universal life	\$ 2,709,681	\$ 2,834,573	(4.4)	\$ 2,732,403	\$ 2,849,613	(4.1)		
Fixed annuity(2)	3,386,070	3,617,480(4)	(6.4)	3,405,837	3,690,322(4)	(7.7)		
Variable annuity	134,278	124,441	7.9	136,984	125,048	9.5		
	\$ 6,230,029	\$ 6,576,494	(5.3)	\$ 6,275,224	\$ 6,664,983	(5.8)		
Interest Spread - UL & Fixed Annuities								
Net investment income yield(3)	6.01%	5.89%		5.95%	5.96%			
Interest credited to policyholders	4.10	4.17		4.19	4.16			
Interest spread	1.91%	1.72%		1.76%	1.80%			

(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) Includes available-for-sale and trading portfolios. Available-for-sale portfolio yields were 6.34% for the three and six months ended June 30, 2010 compared to 6.30% and 6.34%, respectively, for the three and six months ended June 30, 2009.

(4) Certain changes in methodology were made in the current year. Prior years have been adjusted to make amounts comparable to current year.

For The Three Months Ended June 30, 2010 as compared to The Three Months Ended June 30, 2009

Segment operating income

Operating income was \$30.2 million for the three months ended June 30, 2010, a decrease of \$4.9 million, or 13.8%, as compared to the three months ended June 30, 2009, primarily due to the expected runoff of the blocks of business.

Operating Revenues

Net premiums and policy fees decreased \$8.1 million, or 11.7%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to runoff of the in-force business. Net investment income decreased \$2.8 million, or 2.3%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, due to runoff of the segment's in-force business, resulting in a reduction of invested assets and lower investment income.

Benefits and expenses

Total benefits and expenses decreased \$6.2 million, or 4.0%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The decrease related primarily to the expected runoff of the in-force business and fluctuations in mortality.

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Segment operating income

Operating income was \$61.6 million for the six months ended June 30, 2010, a decrease of \$7.1 million, or 10.3%, as compared to the six months ended June 30, 2009, primarily due to the expected runoff of the blocks of business.

Operating Revenues

Net premiums and policy fees decreased \$9.6 million, or 6.9%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to runoff of the in-force business. Net investment income decreased \$10.9 million, or 4.5%, for the six months ended June 30, 2010, as compared to the six months

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ended June 30, 2009, due to runoff of the segment's in-force business, resulting in a reduction of invested assets and lower investment income.

Benefits and expenses

Total benefits and expenses decreased \$13.8 million, or 4.4%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The decrease related primarily to the expected runoff of the in-force business and fluctuations in mortality.

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 June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	\$ (117,492)	\$ (115,482)	\$ (210,626)	\$ (225,089)
BENEFITS AND EXPENSES				
Benefit and settlement expenses	(93,901)	(97,107)	(178,970)	(189,329)
Amortization of deferred policy acquisition costs	(2,231)	(3,496)	(7,653)	(9,277)
Other operating expenses	(15,110)	(15,747)	(27,895)	(30,706)
Total benefits and expenses	(111,242)	(116,350)	(214,518)	(229,312)
NET IMPACT OF REINSURANCE(1)	\$ (6,250)	\$ 868	\$ 3,892	\$ 4,223

(1) Assumes no investment income on reinsurance. Foregone investment income would substantially reduce the favorable impact of reinsurance.

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, 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 condensed financial statements.

The net impact of reinsurance was less favorable by \$7.1 million for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, due to increases in ceded premiums and decreases in benefits, amortization of deferred acquisition costs, and expenses.

The net impact of reinsurance decreased \$0.3 million for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, as decreases in ceded premiums more than offset decreases in benefits, amortization of deferred acquisition costs, and expenses.

Table of Contents**Annuities****Segment results of operations**

Segment results were as follows:

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2010	2009	Change	(Dollars In Thousands)	2010	2009	Change	
REVENUES								
Gross premiums and policy fees	\$ 9,800	\$ 7,406	32.3%		\$ 18,575	\$ 18,391	1.0%	
Reinsurance ceded	(38)	(42)	(9.5)		(75)	(84)	(10.7)	
Net premiums and policy fees	9,762	7,364	32.6		18,500	18,307	1.1	
Net investment income	118,719	108,588	9.3		234,916	211,570	11.0	
Realized gains (losses) - derivatives	(49,417)	13,393	n/m		(39,868)	32,481	n/m	
Other income	6,935	4,215	64.5		12,929	7,595	70.2	
Total operating revenues	85,999	133,560	(35.6)		226,477	269,953	(16.1)	
Realized gains (losses) - investments	(524)	925			(422)	(5,523)		
Total revenues	85,475	134,485	(36.4)		226,055	264,430	(14.5)	
BENEFITS AND EXPENSES								
Benefits and settlement expenses	114,534	78,759	45.4		208,775	164,567	26.9	
Amortization of deferred policy acquisition costs and value of business acquired	(38,143)	26,568	n/m		(18,543)	71,753	n/m	
Other operating expenses	9,003	6,068	48.4		17,453	12,043	44.9	
Operating benefits and expenses	85,394	111,395	(23.3)		207,685	248,363	(16.4)	
Amortization of DAC / VOBA related to realized gains (losses) - investments	594				665	(100)		
Total benefits and expenses	85,988	111,395	(22.8)		208,350	248,263	(16.1)	
INCOME (LOSS) BEFORE INCOME TAX								
	(513)	23,090	n/m		17,705	16,167	9.5	
Less: realized gains (losses)	(524)	925			(422)	(5,523)		
Less: related amortization of DAC	(594)	670			(665)	770		
OPERATING INCOME	\$ 605	\$ 21,495	(97.2)		\$ 18,792	\$ 20,920	(10.2)	

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The following table summarizes key data for the Annuities segment:

	For The Three Months Ended June 30,			For The Six Months Ended June 30,			Change
	2010	2009	Change (Dollars In Thousands)	2010	2009		
Sales							
Fixed annuity	\$ 325,299	\$ 432,373	(24.8)%	\$ 543,328	\$ 730,053		(25.6)%
Variable annuity	412,789	177,306	n/m	762,725	316,362		n/m
	\$ 738,088	\$ 609,679	21.1	\$ 1,306,053	\$ 1,046,415		24.8
Average Account Values							
Fixed annuity(1)	\$ 7,820,272	\$ 6,945,161	12.6	\$ 7,710,618	\$ 6,814,015		13.2
Variable annuity	3,212,315	1,999,967	60.6	3,061,036	1,882,160		62.6
	\$ 11,032,587	\$ 8,945,128	23.3	\$ 10,771,654	\$ 8,696,175		23.9
Interest Spread - Fixed Annuities(2)							
Net investment income yield	6.06%	6.23%		6.09%	6.18%		
Interest credited to policyholders	4.61	4.82		4.62	4.87		
Interest spread	1.45%	1.41%		1.47%	1.31%		
As of June 30,							
	2010	2009	Change				
GMDB - Net amount at risk(3)	\$ 482,349	\$ 681,368	(29.2)%				
GMDB Reserves			n/m				
GMWB Reserves	54,047	1,067	n/m				
Account value subject to GMWB rider	1,679,153	629,576	n/m				
S&P 500® Index	1,031	919	12.2				

(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 June 30, 2010 as compared to The Three Months Ended June 30, 2009

Segment operating income

Segment operating income was \$0.6 million for the three months ended June 30, 2010, as compared to \$21.5 million for the three months ended June 30, 2009, a decrease of \$20.9 million. This change included an unfavorable \$20.9 million variance related to fair value changes, made up of a \$0.4 million favorable change related to the EIA product and a \$21.3 million unfavorable change related to embedded derivatives associated with the VA GMWB rider caused primarily by changes in equity markets and lower interest rates. A \$2.9 million increase in earnings was related to wider spreads and average account value growth in fixed and variable annuities.

Operating revenues

Segment operating revenues decreased \$47.6 million, or 35.6%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to unfavorable fair value changes on the embedded derivatives associated with the VA GMWB rider and economic hedges associated with the EIA product. These losses were partially offset by an increase in net investment income, policy fees, and other income. Average fixed account balances grew 12.6% for the three months ended June 30, 2010, resulting in higher investment income.

Benefits and settlement expenses

Benefits and settlement expenses increased \$35.8 million, or 45.4%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. This increase was primarily the result of higher credited interest, higher unearned premium reserve amortization, and fluctuations in death benefit reserves on the VA line. Partially offsetting this increase was a favorable change of \$4.1 million in the fair value component of the EIA reserve and lower bonus interest amortization.

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Amortization of DAC

The decrease in DAC amortization for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to fair value changes on the VA GMWB rider. Fair value changes on the VA GMWB rider caused a decrease in amortization of \$52.7 million. Favorable DAC unlocking of \$0.9 million was recorded by the segment during the three months ended June 30, 2010, as compared to favorable unlocking of \$0.6 million during the three months ended June 30, 2009.

Sales

Total sales increased \$128.4 million, or 21.1%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Sales of fixed annuities decreased \$107.1 million, or 24.8%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The decrease in fixed annuity sales was driven by reduced sales in the market value adjusted (MVA) annuity, single premium deferred annuity (SPDA) line, and immediate annuity lines and was primarily attributable to a lower interest rate environment. MVA sales decreased \$100.1 million, or 66.7%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Sales of variable annuities increased \$235.5 million for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to better competitive position and more focus on the VA line of business.

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Segment operating income

Segment operating income was \$18.8 million for the six months ended June 30, 2010, as compared to \$20.9 million for the six months ended June 30, 2009, a decrease of \$2.1 million. This change included an unfavorable \$28.3 million variance related to fair value changes, of which \$1.8 million was related to the EIA product and \$26.5 million was related to embedded derivatives associated with the VA GMWB rider caused primarily by changes in equity markets and lower interest rates. The remaining \$26.2 million variance in operating income was primarily driven by a \$19.3 million unlocking charge recorded within the VA line during the six months ended June 30, 2009. Other items accounted for the remainder of the variance, including a \$6.4 million increase in earnings related to wider spreads and average account value growth in fixed and variable annuities.

Operating revenues

Segment operating revenues decreased \$43.5 million, or 16.1%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to unfavorable fair value changes on the embedded derivatives associated with the VA GMWB rider and economic hedges associated with the EIA product. These losses were partially offset by increases in net investment income, policy fees, and other income. Average fixed account balances grew 13.2% for the six months ended June 30, 2010, resulting in higher investment income.

Benefits and settlement expenses

Benefits and settlement expenses increased \$44.2 million, or 26.9%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. This increase was primarily the result of higher credited interest and higher unearned premium reserve amortization. Offsetting this increase was a favorable variance of \$2.7 million in EIA fair value changes and a favorable change of \$4.9 million in VA death benefit payments for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009.

Amortization of DAC

The decrease in DAC amortization for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, was primarily due to fair value changes on the VA GMWB rider, and a \$10.8 million unlocking charge in the VA line during the six months ended June 30, 2009. Fair value changes on the VA GMWB rider caused a decrease in amortization of \$60.9 million. Favorable DAC unlocking of \$1.6 million was recorded by the segment during the six months ended June 30, 2010.

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Sales

Total sales increased \$259.6 million, or 24.8%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. Sales of fixed annuities decreased \$186.7 million, or 25.6%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The decrease in fixed annuity sales was driven by reduced sales in the MVA and immediate annuity lines and was primarily attributable to a lower interest rate environment. MVA sales decreased \$192.7 million, or 72.0%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. SPDA sales increased by \$30.1 million, or 7.3%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to expansion of our distribution channels. Sales of variable annuities increased \$446.4 million for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to better competitive positioning and more focus on the VA line of business.

Table of Contents**Stable Value Products***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended June 30,			Change (Dollars In Thousands)	For The Six Months Ended June 30,			Change
	2010	2009			2010	2009		
REVENUES								
Net investment income	\$ 45,724	\$ 57,550	(20.5)%	\$ 92,144	\$ 120,726		(23.7)%	
Other income		340	(100.0)		1,866		(100.0)	
Realized gains (losses)	(8,451)	(400)	n/m	(6,915)	1,462		n/m	
Total revenues	37,273	57,490	(35.2)	85,229	124,054		(31.3)	
BENEFITS AND EXPENSES								
Benefits and settlement expenses	32,972	39,206	(15.9)	66,703	81,791		(18.4)	
Amortization of deferred policy acquisition costs	882	844	4.5	1,861	1,771		5.1	
Other operating expenses	891	864	3.1	1,574	1,847		(14.8)	
Total benefits and expenses	34,745	40,914	(15.1)	70,138	85,409		(17.9)	
INCOME BEFORE INCOME TAX								
	2,528	16,576	(84.7)	15,091	38,645		(60.9)	
Less: realized gains (losses)	(8,451)	(400)		(6,915)	1,462			
OPERATING INCOME	\$ 10,979	\$ 16,976	(35.3)	\$ 22,006	\$ 37,183		(40.8)	

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

	For The Three Months Ended June 30,			Change (Dollars In Thousands)	For The Six Months Ended June 30,			Change
	2010	2009			2010	2009		
Sales								
GIC	\$ 6,500	\$	n/m%	\$ 7,500	\$		n/m%	
GFA - Direct Institutional	250,000		n/m	400,000			n/m	
GFA - Registered Notes - Institutional			n/m				n/m	
GFA - Registered Notes - Retail			n/m				n/m	
	\$ 256,500	\$	n/m	\$ 407,500	\$		n/m	
Average Account Values	\$ 3,497,115	\$ 4,224,897	(17.2)	\$ 3,496,283	\$ 4,373,484		(20.1)	
Ending Account Values	\$ 3,488,175	\$ 4,138,437	(15.7)	\$ 3,488,175	\$ 4,138,437		(15.7)	

Operating Spread

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Net investment income yield	5.23%	5.45%	5.27%	5.52%
Interest credited	3.77	3.71	3.81	3.74
Operating expenses	0.20	0.17	0.20	0.17
Operating spread	1.26%	1.57%(1)	1.26%	1.61%(1)

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

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For The Three Months Ended June 30, 2010 as compared to The Three Months Ended June 30, 2009

Segment operating income

Operating income was \$11.0 million and decreased \$6.0 million, or 35.3%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The decrease in operating earnings resulted from a decline in average account values and lower operating spreads. In addition, no income was generated from the early retirement of funding agreements backing medium-term notes for the three months ended June 30, 2010, compared with \$0.3 million for the three months ended June 30, 2009. The operating spread decreased 31 basis points to 126 basis points for the three months ended June 30, 2010, as compared to an operating spread of 157 basis points during the three months ended June 30, 2009.

Sales

During the first quarter of 2010, we chose to re-enter the stable value market. Total sales were \$256.5 million for the three months ended June 30, 2010.

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Segment operating income

Operating income was \$22.0 million and decreased \$15.2 million, or 40.8%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The decrease in operating earnings resulted from a decline in average account values and lower operating spreads. In addition, no income was generated from the early retirement of funding agreements backing medium-term notes for the six months ended June 30, 2010, compared with \$1.9 million for the six months ended June 30, 2009. The operating spread decreased 35 basis points to 126 basis points for the six months ended June 30, 2010, as compared to an operating spread of 161 basis points during the six months ended June 30, 2009.

Sales

During the first quarter of 2010, we chose to re-enter the stable value market. Total sales were \$407.5 million for the six months ended June 30, 2010.

Table of Contents**Asset Protection***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended June 30,			Change	For The Six Months Ended June 30,			Change
	2010	2009			2010	2009		
REVENUES								
Gross premiums and policy fees	\$ 76,984	\$ 84,240	(8.6)%	\$ 156,499	\$ 171,175	(8.6)%		
Reinsurance ceded	(34,654)	(37,698)	(8.1)	(70,560)	(79,183)	(10.9)		
Net premiums and policy fees	42,330	46,542	(9.0)	85,939	91,992	(6.6)		
Net investment income	7,316	8,407	(13.0)	14,813	17,339	(14.6)		
Other income	18,123	13,199	37.3	33,448	25,672	30.3		
Total operating revenues	67,769	68,148	(0.6)	134,200	135,003	(0.6)		
BENEFITS AND EXPENSES								
Benefits and settlement expenses	26,836	29,363	(8.6)	45,592	63,473	(28.2)		
Amortization of deferred policy acquisition costs	12,807	14,104	(9.2)	25,582	27,787	(7.9)		
Other operating expenses	21,627	20,025	8.0	43,534	32,807	32.7		
Total benefits and expenses	61,270	63,492	(3.5)	114,708	124,067	(7.5)		
INCOME BEFORE INCOME TAX								
	6,499	4,656	39.6	19,492	10,936	78.2		
Less: noncontrolling interests	(117)		n/m	(191)		n/m		
OPERATING INCOME	\$ 6,616	\$ 4,656	42.1	\$ 19,683	\$ 10,936	80.0		

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

	For The Three Months Ended June 30,			Change	For The Six Months Ended June 30,			Change
	2010	2009			2010	2009		
Sales								
Credit insurance	\$ 9,693	\$ 8,721	11.1%	\$ 17,385	\$ 17,204	1.1%		
Service contracts	65,353	56,368	15.9	117,892	104,434	12.9		
Other products	13,363	11,091	20.5	24,822	22,882	8.5		
	\$ 88,409	\$ 76,180	16.1	\$ 160,099	\$ 144,520	10.8		
Loss Ratios (1)								
Credit insurance	29.2%	32.7%		36.7%	32.4%			
Service contracts	87.4	80.1		82.9	77.4			
Other products	24.6	43.9		(6.1)	69.6			

(1) Incurred claims as a percentage of earned premiums

For The Three Months Ended June 30, 2010 as compared to The Three Months Ended June 30, 2009

Segment operating income

Operating income was \$6.6 million, representing an increase of \$2.0 million for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The second quarter 2010 income was comprised solely of \$6.6 million of income from core operations. Credit insurance earnings decreased \$0.4 million as compared to the prior year, primarily due to lower investment income. Service contract earnings increased \$1.1 million, or 30.3%, as compared to the prior year, primarily due to higher volume partially offset by higher loss ratios and higher expenses in certain product lines. Earnings from other products increased \$1.2 million for the three months ended June 30, 2010 as compared to the prior year due to favorable loss experience in the GAP product line.

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Net premiums and policy fees

Net premiums and policy fees decreased \$4.2 million, or 9.0%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Credit insurance premiums decreased \$0.8 million, or 13.0%, due to the impact of decreasing sales over the past several years and the related impact on earned premiums. Service contract premiums decreased \$0.8 million, or 2.9%. Within the other product lines, net premiums decreased \$2.6 million, or 19.1%, as compared to the prior year due to a decrease in the GAP product line as a result of decreasing sales over the past several years and the related impact on earned premiums.

Other income

Other income increased \$4.9 million, or 37.3%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to the impact of taking over the administration of a block of service contract business in the fourth quarter of 2009 and an increase in sales in 2010.

Benefits and settlement expenses

Benefits and settlement expenses decreased \$2.5 million, or 8.6%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Credit insurance claims for the three months ended June 30, 2010, as compared to the prior year, decreased \$0.5 million, or 22.3%, due to improved loss ratios. Service contract claims increased \$1.2 million, or 5.9%, due to higher loss ratios in some product lines. Other products claims decreased \$3.3 million, or 54.7%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Improved loss ratios in the GAP product line contributed to the decrease.

Amortization of DAC and Other operating expenses

Amortization of DAC was \$1.3 million, or 9.2%, lower for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to lower earned premiums in the GAP product line. Other operating expenses increased \$1.6 million, or 8.0%, for the three months ended June 30, 2010, primarily due to higher retrospective commissions resulting from lower loss ratios in the GAP product line.

Sales

Total segment sales increased \$12.2 million, or 16.1%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Credit insurance sales increased \$1.0 million, or 11.1%. Service contract sales increased \$9.0 million, or 15.9%, as compared to the prior year. Sales from other products increased \$2.3 million, or 20.5%. Increases in all the lines are primarily attributable to the improvement

in auto sales over the prior year.

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Segment operating income

Operating income was \$19.7 million, representing an increase of \$8.7 million for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. Income for the six months ended June 30, 2010, was comprised of \$12.1 million of income from core operations and \$7.6 million of income from runoff lines. Credit insurance earnings decreased \$1.9 million as compared to the prior year, primarily due to unfavorable loss experience and lower investment income. Service contract earnings increased \$0.6 million, or 7.3%, as compared to the prior year. Earnings from other products, including runoff lines, increased \$10.0 million for the six months ended June 30, 2010 as compared to the prior year. The increase resulted primarily from a \$7.8 million excess reserve release in the first quarter of 2010 related to the final settlement in the runoff Lender's Indemnity line of business. Favorable loss experience in the GAP product line also contributed to the increase.

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Net premiums and policy fees

Net premiums and policy fees decreased \$6.1 million, or 6.6%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. Credit insurance premiums decreased \$1.6 million, or 12.9%, due to the impact of decreasing sales over the past several years and the related impact on earned premiums. Service contract premiums decreased \$1.0 million, or 1.9%. Within the other product lines, net premiums decreased \$3.4 million, or 12.9%, as compared to the prior year mainly due to a decrease in the GAP product line as a result of decreasing sales over the past several years and the related impact on earned premiums and the discontinuation of the inventory protection product (IPP) product line.

Other income

Other income increased \$7.8 million, or 30.3%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to the impact of taking over the administration of a block of service contract business in the fourth quarter of 2009 and an increase in sales in 2010.

Benefits and settlement expenses

Benefits and settlement expenses decreased \$17.9 million, or 28.2%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. Service contract claims increased \$2.1 million, or 5.0%, due to higher loss ratios in some product lines. Other products claims decreased \$19.9 million for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The decrease included a \$7.8 million decrease in reserves related to the final settlement in the runoff Lender s Indemnity line of business. In addition, the first quarter of 2009 included a \$6.3 million increase in the runoff Lender s indemnity product line s loss reserve related to the commutation of a reinsurance agreement which was offset by a reduction in other expenses. Improved loss ratios in the GAP product line also contributed to the decrease.

Amortization of DAC and Other operating expenses

Amortization of DAC was \$2.2 million, or 7.9%, lower for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to lower earned premiums in the GAP product line. Other operating expenses increased \$10.7 million, or 32.7%, for the six months ended June 30, 2010, due to a \$6.3 million bad debt recovery in the runoff Lender s Indemnity product line due to the commutation of a reinsurance agreement in the first quarter of 2009, which was offset by an increase in benefits and settlement expenses. Higher commission expense resulting from an increase in sales and higher retrospective commissions resulting from lower loss ratios in certain service product lines also contributed to the increase.

Sales

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Total segment sales increased \$15.6 million, or 10.8%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. Credit insurance sales increased \$0.2 million, or 1.1%. Service contract sales increased \$13.4 million, or 12.9%, as compared to the prior year. Sales in other products increased \$2.0 million, or 8.5% primarily in the GAP product line. Increases in all the lines are primarily attributable to the improvement in auto sales over the prior year.

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 (PARCs). 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 PARCs to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders.

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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 June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
(Dollars In Thousands)				
REVENUES				
Reinsurance ceded	\$ (34,654)	\$ (37,698)	\$ (70,560)	\$ (79,183)
BENEFITS AND EXPENSES				
Benefit and settlement expenses	(19,207)	(21,689)	(38,482)	(43,067)
Amortization of deferred policy acquisition costs	(2,734)	(4,887)	(6,318)	(10,381)
Other operating expenses	(763)	(680)	(1,697)	(9,164)
Total benefits and expenses	(22,704)	(27,256)	(46,497)	(62,612)
NET IMPACT OF REINSURANCE(1)	\$ (11,950)	\$ (10,442)	\$ (24,063)	\$ (16,571)

(1) Assumes no investment income on reinsurance. Foregone investment income would substantially reduce the favorable impact of reinsurance.

For The Three Months Ended June 30, 2010 as compared to The Three Months Ended June 30, 2009

Reinsurance premiums ceded decreased \$3.0 million, or 8.1%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The decrease was primarily due to a decline in ceded dealer credit insurance premiums and GAP premiums due to lower auto sales in prior years. Ceded unearned premium reserves and claim reserves with PARCs are generally secured by trust accounts, letters of credit, or on a funds withheld basis.

Benefits and settlement expenses ceded decreased \$2.5 million, or 11.4%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The decrease was primarily due to lower losses in the service contract and GAP lines.

Amortization of DAC ceded decreased \$2.2 million, or 44.1%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily as the result of the decreases in the ceded dealer credit and GAP product lines. Other operating expenses ceded increased \$0.1 million, 12.2%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Increases in the dealer credit line were mostly offset by decreases in the service contract line.

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Net investment income has no direct impact on reinsurance cost. However, 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 business we cede. The net investment income impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated condensed financial statements.

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Reinsurance premiums ceded decreased \$8.6 million, or 10.9%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The decrease was primarily due to a decline in ceded dealer credit insurance premiums and GAP premiums due to lower auto sales in prior years. Ceded unearned premium reserves and claim reserves with PARCs are generally secured by trust accounts, letters of credit, or on a funds withheld basis.

Benefits and settlement expenses ceded decreased \$4.6 million, or 10.6%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The decrease was primarily due to lower losses in the service contract and GAP lines.

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Amortization of DAC ceded decreased \$4.1 million, or 39.1%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily as the result of the decreases in the ceded dealer credit and GAP product lines. Other operating expenses ceded decreased \$7.5 million, or 81.5%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009. The fluctuation was primarily attributable to \$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 and the overall decline in auto sales in prior years.

Net investment income has no direct impact on reinsurance cost. However, 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 business we cede. The net investment income impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated condensed financial statements.

Table of Contents**Corporate and Other***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended June 30,			For The Six Months Ended June 30,			
	2010	2009	Change	2010	2009	Change	
	(Dollars In Thousands)						
REVENUES							
Gross premiums and policy fees	\$ 6,168	\$ 6,664	(7.4)%	\$ 12,539	\$ 13,562	(7.5)%	
Reinsurance ceded	(2)	(1)	100.0	(2)	(2)	0.0	
Net premiums and policy fees	6,166	6,663	(7.5)	12,537	13,560	(7.5)	
Net investment income	39,230	46,251	(15.2)	74,568	75,778	(1.6)	
Realized gains (losses) - derivatives	42	1,163		84	3,401		
Other income	9,631	72	n/m	9,689	123	n/m	
Total operating revenues	55,069	54,149	1.7	96,878	92,862	4.3	
Realized gains (losses) - investments	(1,967)	(31,322)		(11,734)	(105,235)		
Realized gains (losses) - derivatives	(7,224)	33,669		(10,184)	46,385		
Total revenues	45,878	56,496	(18.8)	74,960	34,012	n/m	
BENEFITS AND EXPENSES							
Benefits and settlement expenses	6,443	5,946	8.4	12,980	13,661	(5.0)	
Amortization of deferred policy acquisition costs	452	469	(3.6)	900	953	(5.6)	
Other operating expenses	47,807	38,086	25.5	98,762	77,847	26.9	
Total benefits and expenses	54,702	44,501	22.9	112,642	92,461	21.8	
INCOME (LOSS) BEFORE INCOME TAX							
	(8,824)	11,995	n/m	(37,682)	(58,449)	(35.5)	
Less: realized gains (losses) - investments	(1,967)	(31,322)		(11,734)	(105,235)		
Less: realized gains (losses) - derivatives	(7,224)	33,669		(10,184)	46,385		
Less: noncontrolling interests	(10)		n/m	(9)		n/m	
OPERATING INCOME (LOSS)	\$ 377	\$ 9,648	(96.1)	\$ (15,755)	\$ 401	n/m	

*For The Three Months Ended June 30, 2010 as compared to The Three Months Ended June 30, 2009**Segment operating income (loss)*

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Corporate and Other segment operating income was \$0.4 million for the three months ended June 30, 2010, as compared to income of \$9.6 million for the three months ended June 30, 2009. This variance was primarily due to negative mark-to-market adjustments during the second quarter of 2010 on a portfolio of securities designated for trading. The trading portfolio accounted for a negative variance of \$27.8 million. Partially offsetting this was a \$9.5 million pre-tax gain on the repurchase of non-recourse funding obligations and growth in other investment income.

Operating revenues

Net investment income for the segment decreased \$7.0 million, or 15.2%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The decrease in net investment income was primarily the result of a negative variance related to the trading portfolio of \$27.8 million compared to the prior year quarter. Offsetting this was growth in other investment income. Other income increased \$9.6 million for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, as a result of a \$9.5 million pre-tax gain on the repurchase of non-recourse funding obligations.

Benefits and expenses

Benefits and expenses increased \$10.2 million, or 22.9%, for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, primarily due to an increase in interest expense of \$8.3 million, as well as an increase in policy benefits on non-core lines of business.

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For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Segment operating income (loss)

Corporate and Other segment operating loss was \$15.8 million for the six months ended June 30, 2010, as compared to income of \$0.4 million for the six months ended June 30, 2009. This variance was primarily due to a negative variance related to mark-to-market adjustments on a portfolio of securities designated for trading. The trading portfolio accounted for a negative variance of \$27.1 million compared to the prior year. Partially offsetting this was a \$9.5 million pre-tax gain on the repurchase of non-recourse funding obligations and growth in other investment income.

Operating revenues

Net investment income for the segment decreased \$1.2 million, or 1.6%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, and net premiums and policy fees decreased \$1.0 million, or 7.5%. The decrease in net investment income was primarily the result of a negative variance related to the trading portfolio of \$27.1 million, offset by growth in other investment income.

Benefits and expenses

Benefits and expenses increased \$20.2 million, or 21.8%, for the six months ended June 30, 2010, as compared to the six months ended June 30, 2009, primarily due to an increase in interest expense of \$20.1 million.

Table of Contents**CONSOLIDATED INVESTMENTS**

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

Portfolio Description

As of June 30, 2010, our investment portfolio was approximately \$30.9 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:

	June 30, 2010	As of (Dollars In Thousands)		December 31, 2009	
Publicly issued bonds (amortized cost: 2010 - \$18,968,333; 2009 - \$18,376,802)	\$ 19,404,693	62.9%	\$	18,100,141	62.3%
Privately issued bonds (amortized cost: 2010 - \$4,212,873; 2009 - \$4,851,515)	4,282,835	13.9		4,730,286	16.3
Fixed maturities	23,687,528	76.8		22,830,427	78.6
Equity securities (cost: 2010 - \$324,815; 2009 - \$280,615)	308,951	1.0		275,497	0.9
Mortgage loans	4,905,276	15.9		3,877,087	13.3
Investment real estate	22,431	0.0		25,188	0.1
Policy loans	775,105	2.5		794,276	2.7
Other long-term investments	182,075	0.6		204,754	0.7
Short-term investments	972,804	3.2		1,049,609	3.7
Total investments	\$ 30,854,170	100.0%	\$	29,056,838	100.0%

Included in the preceding table are \$3.1 billion and \$2.9 billion of fixed maturities and \$130.5 million and \$250.8 million of short-term investments classified as trading securities as of June 30, 2010 and December 31, 2009, respectively. The trading portfolio includes invested assets of \$2.9 billion and \$2.7 billion as of June 30, 2010 and December 31, 2009, 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

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As of June 30, 2010, our fixed maturity investment holdings were approximately \$23.7 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

Rating	As of	
	June 30, 2010	December 31, 2009
AAA	14.7%	19.9%
AA	4.6	4.9
A	21.6	18.7
BBB	45.1	42.9
Below investment grade	14.0	13.6
	100.0%	100.0%

The increase in BBB securities reflected in the table above is primarily a result of negative ratings migration on securities owned by the Company and security purchases. During the six months ended June 30, 2010 and the year ended December 31, 2009, we did not actively purchase securities below the BBB level.

We do not have material exposure to financial guarantee insurance companies with respect to our investment portfolio. As of June 30, 2010, based upon amortized cost, \$74.2 million of our securities were guaranteed either directly or indirectly by third parties out of a total of \$23.0 billion fixed maturity securities held by us (0.3% of total fixed maturity securities).

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Declines in fair value for our available-for-sale portfolio, 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 any applicable 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 (RMBS).

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

Type	June 30, 2010	As of	
		December 31, 2009	
(Dollars In Millions)			
Residential mortgage-backed securities	\$ 3,511.4	\$	3,917.5
Commercial mortgage-backed securities	297.0		1,124.3
Other asset-backed securities	951.6		1,120.8
U.S. government-related securities	1,824.2		811.3
Other government-related securities	368.8		608.5
States, municipals and political subdivisions	783.8		400.2
Corporate bonds	15,950.7		14,847.8
Total fixed income portfolio	\$ 23,687.5	\$	22,830.4

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 \$20.6 billion or 87.1% of our fixed maturities as available-for-sale as of June 30, 2010. These securities are carried at fair value on our consolidated condensed balance sheets.

Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Our trading portfolio accounts for \$3.1 billion, or 12.9%, of our fixed maturities as of June 30, 2010. Of this balance, fixed maturities with a market value of \$2.9 billion and short-term investments with a market value of \$130.5 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. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative associated with the underlying reinsurance arrangement. The total Modco trading portfolio fixed maturities by rating is as follows:

Rating	June 30, 2010	As of	
		December 31, 2009	
(Dollars In Thousands)			
AAA	\$ 725,325	\$	834,733
AA	133,712		73,210
A	759,756		544,135
BBB	978,207		950,252
Below investment grade	275,842		281,487
Total Modco trading fixed maturities	\$ 2,872,842	\$	2,683,817

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A portion of our bond portfolio is invested in RMBS, commercial mortgage-backed securities (CMBS), and other asset-backed securities. These holdings as of June 30, 2010, were approximately \$4.8 billion. Mortgage-backed securities (MBS) 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 RMBS portfolio by type and rating as of June 30, 2010. As of June 30, 2010, these holdings were approximately \$3.5 billion. Sequential securities receive payments in order until each class is paid off. Planned amortization class securities (PACs) pay down according to a schedule. Pass through securities receive principal as principal of the underlying mortgages is received.

Type	Percentage of Residential Mortgage-Backed Securities
Sequential	64.1%
PAC	16.3
Pass Through	3.5
Other	16.1
	100.0%

Rating	Percentage of Residential Mortgage-Backed Securities
AAA	33.8%
AA	5.4
A	0.7
BBB	7.6
Below investment grade	52.5
	100.0%

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As of June 30, 2010, we held \$413.4 million, or 1.3% of invested assets, of securities supported by collateral classified as Alt-A. As of December 31, 2009, we held securities with a market value of \$466.6 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 June 30, 2010:

Rating	Percentage of Alt-A Securities
AAA	1.5%
A	1.0
BBB	0.1
Below investment grade	97.4
	100.0%

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 June 30, 2010:

Alt-A Collateralized Holdings

Rating	2006 and Prior	Estimated Fair Value of Security by Year of Security Origination				Total
		2007	2008	2009	2010	
AAA	\$ 6.0	\$	\$	\$	\$	\$ 6.0
A	4.3					4.3
BBB	0.5					0.5
Below investment grade	232.3	170.3				402.6
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ 243.1	\$ 170.3	\$	\$	\$	\$ 413.4

Rating	2006 and Prior	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination				Total
		2007	2008	2009	2010	
AAA	\$ (0.2)	\$	\$	\$	\$	\$ (0.2)
A	0.7					0.7
BBB	0.1					0.1
Below investment grade	(47.6)	(24.6)				(72.2)
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ (47.0)	\$ (24.6)	\$	\$	\$	\$ (71.6)

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The following table includes the percentage of our collateral classified as sub-prime grouped by rating category as of June 30, 2010:

Rating	Percentage of Sub-prime Securities
AAA	0.5%
AA	0.2
A	5.8
BBB	6.3
Below investment grade	87.2
	100.0%

As of June 30, 2010, we had RMBS with a total fair value of \$37.3 million, or 0.1%, of total invested assets, that were supported by collateral classified as sub-prime. As of December 31, 2009, we held securities with a fair value of \$35.2 million that were 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 June 30, 2010:

Sub-prime Collateralized Holdings

Rating	2006 and Prior	Estimated Fair Value of Security by Year of Security Origination				Total
		2007	2008	2009	2010	
(Dollars In Millions)						
AAA	\$ 0.2	\$	\$	\$	\$	\$ 0.2
AA	0.1					0.1
A	2.2					2.2
BBB	2.3					2.3
Below investment grade	17.9	14.6				32.5
Total mortgage-backed securities collateralized by sub-prime mortgage loans	\$ 22.7	\$ 14.6	\$	\$	\$	\$ 37.3

Rating	2006 and Prior	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination				Total
		2007	2008	2009	2010	
(Dollars In Millions)						
AAA	\$	\$	\$	\$	\$	
AA						
A	(0.3)					(0.3)
BBB	(0.6)					(0.6)
Below investment grade	(6.9)	(20.2)				(27.1)
	\$ (7.8)	\$ (20.2)	\$	\$	\$	\$ (28.0)

Total mortgage-backed
securities collateralized by
sub-prime mortgage loans

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The following table includes the percentage of our collateral classified as prime, grouped by rating category, as of June 30, 2010:

Rating	Percentage of Prime Securities
AAA	38.5%
AA	6.2
A	0.6
BBB	8.7
Below investment grade	46.0
	100.0%

As of June 30, 2010, we had RMBS collateralized by prime mortgage loans (including agency mortgages) with a total fair value of \$3.1 billion, or 9.9%, of total invested assets. As of December 31, 2009, we held securities with a fair value of \$3.4 billion of RMBS collateralized by prime mortgage loans (including agency mortgages).

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by prime mortgage loans (including agency mortgages) by rating as of June 30, 2010:

Prime Collateralized Holdings

Rating	Estimated Fair Value of Security by Year of Security Origination					Total
	2006 and Prior	2007	2008	2009	2010	
			(Dollars In Millions)			
AAA	\$ 1,170.8	\$ 8.2	\$	\$	\$	\$ 1,179.0
AA	190.3					190.3
A	11.2	6.2				17.4
BBB	265.1					265.1
Below investment grade	1,146.6	262.2				1,408.8
Total mortgage-backed securities collateralized by prime mortgage loans	\$ 2,784.0	\$ 276.6	\$	\$	\$	\$ 3,060.6

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					Total
	2006 and Prior	2007	2008	2009	2010	
			(Dollars In Millions)			
AAA	\$ 58.1	\$ 0.5	\$	\$	\$	\$ 58.6
AA	(3.4)					(3.4)
A	0.4	0.2				0.6
BBB	(16.8)					(16.8)
Below investment grade	(132.3)	(40.7)				(173.0)
Total mortgage-backed securities collateralized by	\$ (94.0)	\$ (40.0)	\$	\$	\$	\$ (134.0)

prime mortgage loans

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Commercial mortgage-backed securities - Our CMBS portfolio consists of commercial mortgage-backed securities issued in securitization transactions. As of June 30, 2010, the CMBS holdings were approximately \$297.0 million.

The following table includes the percentages of our CMBS holdings grouped by rating category as of June 30, 2010:

Rating	Percentage of Commercial Mortgage-Backed Securities
AAA	97.8%
BBB	2.2
Below investment grade	0.0
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our CMBS as of June 30, 2010:

Commercial Mortgage-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2006 and Prior	2007	2008	2009	2010	Total
	(Dollars In Millions)					
AAA	\$ 203.2	\$	\$ 47.3	\$	\$ 39.9	\$ 290.4
BBB	6.6					6.6
Total commercial mortgage-backed securities	\$ 209.8	\$	\$ 47.3	\$	\$ 39.9	\$ 297.0

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2006 and Prior	2007	2008	2009	2010	Total
	(Dollars In Millions)					
AAA	\$ 9.0	\$	\$ 3.1	\$	\$	\$ 12.1
BBB	(0.4)					(0.4)
Total commercial mortgage-backed securities	\$ 8.6	\$	\$ 3.1	\$	\$	\$ 11.7

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Other asset-backed securities Other asset-backed securities pay down based on cash flows received from the underlying pool of assets, such as receivables on auto loans, student loans, credit cards, etc. As of June 30, 2010, these holdings were approximately \$951.6 million. The following table includes the percentages of our other asset-backed securities holdings grouped by rating category as of June 30, 2010:

Rating	Percentage of Other Asset-Backed Securities
AAA	93.8%
AA	3.3
A	0.7
BBB	1.1
Below investment grade	1.1
	100.0%

The following tables include categorize the estimated fair value and unrealized gain/(loss) of our other asset-backed securities as of June 30, 2010:

Other Asset-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination						Total
	2006 and Prior	2007	2008	2009	2010	(Dollars In Millions)	
AAA	\$ 651.4	\$ 180.5	\$ 35.8	\$ 24.9	\$ 24.9	\$ 892.6	
AA	31.3					31.3	
A	6.5					6.5	
BBB	6.3	3.9				10.2	
Below investment grade	0.6	10.4				11.0	
Total asset-backed securities	\$ 696.1	\$ 194.8	\$ 35.8	\$ 24.9	\$ 24.9	\$ 951.6	

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination						Total
	2006 and Prior	2007	2008	2009	2010	(Dollars In Millions)	
AAA	\$ (38.8)	\$ (21.5)	\$ 0.3	\$ (0.1)	\$ (0.1)	\$ (60.1)	
AA	2.7					2.7	
A	0.3					0.3	
BBB	(1.2)					(1.2)	
Below investment grade	(0.2)	(11.9)				(12.1)	
Total asset-backed securities	\$ (37.2)	\$ (33.4)	\$ 0.3	\$ (0.1)	\$ (0.1)	\$ (70.4)	

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We obtained ratings of our fixed maturities from Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P) and/or Fitch Ratings (Fitch). If a bond is not rated by Moody's, S&P, or Fitch, we use ratings from the National Association of Insurance Commissioners (NAIC), or we rate the bond based upon a comparison of the unrated issue to rated issues of the same issuer or rated issues of other issuers with similar risk characteristics. As of June 30, 2010 over 99.0% of our bonds were rated by Moody's, S&P, Fitch, and/or the NAIC.

The industry segment composition of our fixed maturity securities is presented in the following table:

	As of June 30, 2010	% Fair Value (Dollars In Thousands)	As of December 31, 2009	% Fair Value
Banking	\$ 2,025,267	8.5%	\$ 1,955,544	8.5%
Other finance	84,045	0.4	82,694	0.4
Electric	3,033,867	12.8	2,650,003	11.6
Natural gas	2,001,527	8.4	1,789,164	7.8
Insurance	1,592,863	6.7	1,529,248	6.7
Energy	1,326,041	5.6	1,369,370	6.0
Communications	1,173,633	5.0	1,079,497	4.7
Basic industrial	934,516	3.9	936,575	4.1
Consumer noncyclical	1,044,318	4.4	958,688	4.2
Consumer cyclical	446,605	1.9	491,594	2.1
Finance companies	236,381	1.0	231,312	1.0
Capital goods	646,916	2.7	532,778	2.3
Transportation	472,915	2.0	426,860	1.9
Other industrial	127,067	0.5	91,237	0.4
Brokerage	446,830	1.9	375,650	1.6
Technology	285,041	1.2	289,029	1.3
Real estate	46,371	0.2	53,517	0.2
Other utility	26,453	0.1	5,049	0.0
Commercial mortgage-backed securities	297,024	1.3	1,124,325	4.9
Other asset-backed securities	951,604	4.0	1,120,761	4.8
Residential mortgage-backed non-agency securities	2,650,257	11.2	3,000,142	13.1
Residential mortgage-backed agency securities	861,096	3.6	917,312	4.0
U.S. government-related securities	1,824,176	7.7	811,323	3.5
Other government-related securities	368,856	1.6	608,530	2.7
States, municipals, and political divisions	783,859	3.4	400,225	2.2
Total	\$ 23,687,528	100.0%	\$ 22,830,427	100.0%

Our investments in debt and equity securities are reported at fair value, and investments in mortgage loans are reported at amortized cost. As of June 30, 2010, our fixed maturity investments (bonds and redeemable preferred stocks) had a market value of \$23.7 billion, which was 3.0% above amortized cost of \$23.0 billion. These assets are invested for terms approximately corresponding to anticipated future benefit payments. Thus, market fluctuations are not expected to adversely affect liquidity.

Market values for private, non-traded securities are determined as follows: 1) we obtain estimates from independent pricing services and 2) we estimate market value based upon a comparison to quoted issues of the same issuer or issues of other issuers with similar terms and risk characteristics. We analyze the independent pricing services valuation methodologies and related inputs, including an assessment of the observability of market inputs. Upon obtaining this information related to market value, management makes a determination as to the appropriate valuation amount.

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Mortgage Loans

We invest a portion of our investment portfolio in commercial mortgage loans. As of June 30, 2010, our mortgage loan holdings were approximately \$4.9 billion. We have specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. Our underwriting procedures relative to our commercial loan portfolio are based, in our view, on a conservative and disciplined approach. We concentrate on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). We believe these asset types tend to weather economic downturns better than other commercial asset classes in which we have chosen not to participate. We believe this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout our history.

We record mortgage loans net of an allowance for credit losses. This allowance is calculated through analysis of specific loans that have indicators of potential impairment based on current information and events. As of June 30, 2010 and 2009, our allowance for mortgage loan credit losses was \$6.6 million and \$2.1 million, respectively. While our mortgage loans do not have quoted market values, as of June 30, 2010, we estimated the fair value of our mortgage loans to be \$5.5 billion (using discounted cash flows from the next call date), which was 11.5% greater than the amortized cost, less any related loan loss reserve.

At the time of origination, our mortgage lending criteria targets that the loan-to-value ratio on each mortgage is 75% or less. We target projected rental payments from credit anchors (i.e., excluding rental payments from smaller local tenants) of 70% of the property's projected operating expenses and debt service. We also offer a commercial loan product under which we will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of June 30, 2010, approximately \$877.6 million of our mortgage loans had this participation feature. Exceptions to these loan-to-value measures may be made if we believe the mortgage has an acceptable risk profile.

Many of our mortgage loans have call or interest rate reset provisions between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to call the loans or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates.

As of June 30, 2010, delinquent mortgage loans, foreclosed properties, and restructured loans pursuant to a pooling and servicing agreement were less than 0.3% of invested assets. We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities. Our mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those previously a part of variable interest entity securitizations and thus subject to a contractual pooling and servicing agreement. The loans subject to a pooling and servicing agreement have been included on our consolidated condensed balance sheet (balance sheet) beginning in the first quarter of 2010 in accordance with ASU 2009-17. For loans not subject to a pooling and servicing agreement, as of June 30, 2010, \$29.9 million of the mortgage loan portfolio was nonperforming. In addition, as of June 30, 2010, \$35.7 million of the mortgage loan portfolio that is subject to a pooling and servicing agreement was being restructured under the terms and conditions of the pooling and service agreement.

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

Securities Lending

We participate in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned to third parties for short periods of time. We require initial collateral of 102% of the market value of the loaned securities to be separately maintained. The loaned securities' market value is monitored on a daily basis. As of June 30, 2010, securities with a market value of \$94.7 million were loaned under this program. As collateral for the loaned securities, we receive short-term investments, which are recorded in short-term investments with a corresponding liability recorded in other liabilities to account for our obligation to

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return the collateral. As of June 30, 2010, the fair value of the collateral related to this program was \$93.8 million and we have an obligation to return \$97.1 million of collateral to the securities borrowers.

Risk Management and Impairment Review

We monitor the overall credit quality of our portfolio within established guidelines. The following table includes our available-for-sale fixed maturities by credit rating as of June 30, 2010:

S&P or Equivalent Designation	Market Value (Dollars In Thousands)	Percent of Market Value
AAA	\$ 2,740,581	13.3%
AA	960,389	4.7
A	4,351,938	21.1
BBB	9,628,109	46.7
Investment grade	17,681,017	85.8
BB	1,173,785	5.7
B	725,471	3.5
CCC or lower	1,052,984	5.0
Below investment grade	2,952,240	14.2
Total	\$ 20,633,257	100.0%

Not included in the table above are \$2.7 billion of investment grade and \$355.9 million of below investment grade fixed maturities classified as trading securities.

Limiting bond exposure to any creditor group is another way we manage credit risk. The following table includes securities held in our Modco portfolio and summarizes our ten largest fixed maturity exposures to an individual creditor group as of June 30, 2010:

Creditor	Market Value (Dollars In Millions)
Federal Home Loan Mortgage Corporation	\$ 177.1
Wells Fargo & Company	162.9
Bershire Hathaway Inc.	155.8
Verizon Communications Inc.	147.9
Bank of America Corp.	143.4
AT&T Corporation	139.4
PNC Financial Services Group	124.9
Nextera Energy Inc.	119.1
Enterprise Products Partners	118.9
JP Morgan Chase & Co.	118.3

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Determining whether a decline in the current fair value of invested assets is an other-than-temporary decline in value is both objective and subjective, and can involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. We review our positions on a monthly basis for possible credit concerns and review our current exposure, credit enhancement, and delinquency experience.

Management considers a number of factors when determining the impairment status of individual securities. These include the economic condition of various industry segments and geographic locations and other areas of identified risks. Since it is possible for the impairment of one investment to affect other investments, we engage in ongoing risk management to safeguard against and limit any further risk to our investment portfolio. Special attention is given to correlative risks within specific industries, related parties, and business markets.

For certain securitized financial assets with contractual cash flows, including RMBS, CMBS, and other asset-backed securities (collectively referred to as asset-backed securities - ABS), GAAP requires us to periodically update our best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the expected cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. Estimating future cash flows is a quantitative and qualitative process that incorporates information

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received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral. In addition, we consider our intent and ability to retain a temporarily depressed security until recovery.

In April of 2009, the FASB issued guidance to amend the other-than-temporary impairment guidance in 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 guidance 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 guidance also requires increased and more frequent disclosures regarding measurement techniques, credit losses, and an aging of securities with unrealized losses. We elected to early adopt the guidance in the first quarter of 2009. For the three and six months ended June 30, 2010, we recorded total other-than-temporary impairments of approximately \$36.7 million and \$58.5 million, respectively, with \$19.9 million and \$29.8 million, respectively, of this amount recorded in other comprehensive income (loss).

Securities in an unrealized loss position are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. We consider a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of the Company's intent to sell the security (including a more likely than not assessment of whether the Company will be required to sell the security) before recovering the security's amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered, along with an analysis regarding the Company's expectations for recovery of the security's entire amortized cost basis through the receipt of future cash flows. Based on our analysis, for the six months ended June 30, 2010, we concluded that approximately \$28.6 million of investment securities in an unrealized loss position was other-than-temporarily impaired, due to credit-related factors, resulting in a charge to earnings. Additionally, we recognized \$29.8 million of non-credit losses in other comprehensive income for the securities where an other-than-temporary impairment was recorded for the three and six months ended June 30, 2010.

There are certain risks and uncertainties associated with determining whether declines in market values are other-than-temporary. These include significant changes in general economic conditions and business markets, trends in certain industry segments, interest rate fluctuations, rating agency actions, changes in significant accounting estimates and assumptions, commission of fraud, and legislative actions. We continuously monitor these factors as they relate to the investment portfolio in determining the status of each investment.

We have deposits with certain financial institutions which exceed federally insured limits. We have reviewed the creditworthiness of these financial institutions and believe there is minimal risk of a material loss.

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The following table sets forth realized investment gains and losses for the periods shown:

	For The Three Months Ended June 30,			For The Six Months Ended June 30,			Change
	2010	2009	Change	2010	2009	Change	
	(Dollars In Thousands)						
Fixed maturity gains - sales	\$ 35,130	\$ 4,970	\$ 30,160	\$ 43,362	\$ 10,549	\$ 32,813	
Fixed maturity losses - sales	(29,480)	(905)	(28,575)	(30,986)	(931)	(30,055)	
Equity gains - sales	13	9,503	(9,490)	13	9,503	(9,490)	
Impairments on fixed maturity securities	(16,798)	(40,848)	24,050	(28,667)	(111,234)	82,567	
Impairments on equity securities		(123)	123		(19,563)	19,563	
Modco trading portfolio	63,967	154,785	(90,818)	108,060	108,907	(847)	
Other	(1,926)	(554)	(1,372)	(4,846)	(2,072)	(2,774)	
Total realized gains (losses) - investments	\$ 50,906	\$ 126,828	\$ (75,922)	\$ 86,936	\$ (4,841)	\$ 91,777	
Derivatives related to interest rate futures	\$	\$ 4,593	\$ (4,593)	\$	\$ 6,889	\$ (6,889)	
Embedded derivatives related to reinsurance	(63,063)	(146,420)	83,357	(94,157)	(85,788)	(8,369)	
Derivatives related to corporate debt					(125)	125	
Other interest rate swaps	(6,382)	22,169	(28,551)	(8,774)	36,359	(45,133)	
Credit default swaps	(1,142)	6,887	(8,029)	(637)	2,551	(3,188)	
GMWB embedded derivatives	(49,326)	12,542	(61,868)	(40,202)	32,343	(72,545)	
Other derivatives	25	2,238	(2,213)	810	2,213	(1,403)	
Total realized gains (losses) - derivatives	\$ (119,888)	\$ (97,991)	\$ (21,897)	\$ (142,960)	\$ (5,558)	\$ (137,402)	

Realized gains and losses on investments reflect portfolio management activities designed to maintain proper matching of assets and liabilities and to enhance long-term investment portfolio performance. The change in net realized investment gains (losses), excluding impairments, Modco trading portfolio activity, and related embedded derivatives related to corporate debt, during the three and six months ended June 30, 2010, primarily reflects the normal operation of our asset/liability program within the context of the changing interest rate and spread environment.

Realized losses are comprised of both write-downs on other-than-temporary impairments and actual sales of investments. For the three and six months ended June 30, 2010, we recognized pre-tax other-than-temporary impairments of \$16.8 million and \$28.7 million, respectively, due to credit-related factors, resulting in a charge to earnings. Additionally, we recognized \$19.9 million and \$29.8 million, respectively, of non-credit losses in other comprehensive income (loss) for the securities where an other-than-temporary impairment was recorded. Other-than-temporary impairments totaled \$41.0 million and \$130.8 million for the three and six months ended June 30, 2009, respectively. 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. These other-than-temporary impairments, net of Modco recoveries, are presented in the chart below:

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	For The Three Months Ended June 30, 2010		For The Six Months Ended June 30, 2010	
	(Dollars In Millions)			
Alt-A MBS	\$	12.1	\$	21.4
Other MBS		2.9		4.0
Corporate bonds		1.2		2.6
Sub-prime bonds		0.6		0.7
Total	\$	16.8	\$	28.7

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As previously discussed, management considers several factors when determining other-than-temporary impairments. Although we purchase securities with the intent to hold securities until maturity, we may change our position as a result of a change in circumstances. Any such decision is consistent with our classification of all but a specific portion of our investment portfolio as available-for-sale. For the six months ended June 30, 2010, we sold securities in an unrealized loss position with a fair value of \$234.2 million. For such securities, the proceeds, realized loss, and total time period that the security had been in an unrealized loss position are presented in the table below:

	Proceeds	% Proceeds	Realized Loss	% Realized Loss
	(Dollars In Thousands)			
<= 90 days	\$ 158,109	67.5%	\$ (14,306)	46.2%
>90 days but <= 180 days	22,350	9.5	(2,273)	7.3
>180 days but <= 270 days	3,050	1.3	(38)	0.1
>270 days but <= 1 year	233	0.1	(10)	0.0
>1 year	50,472	21.6	(14,359)	46.4
Total	\$ 234,214	100.0%	\$ (30,986)	100.0%

For the three and six months ended June 30, 2010, the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$131.5 million and \$234.2 million, respectively. The loss realized on the sale of these securities was \$29.5 million and \$31.0 million, respectively. The \$31.0 million loss recognized on available-for-sale securities for the six months ended June 30, 2010, includes \$12.2 million of loss on the sale of certain oil industry holdings. The Company made the decision to exit these holdings pursuant to new circumstances surrounding the oil spill in the Gulf of Mexico. In addition, a \$3.8 million loss was recognized on the sale of securities in which the issuer was a European financial institution. Also included in the \$31.0 million loss is a \$10.4 million loss due to the exchange of certain holdings as the issuer exited bankruptcy proceedings.

For the six months ended June 30, 2010, we sold securities in an unrealized gain position with a fair value of \$1.8 billion. The gain realized on the sale of these securities was \$43.4 million.

The \$4.8 million of other realized losses recognized for the six months ended June 30, 2010, consists of the change in the mortgage loan loss reserves of \$3.7 million, real estate losses of \$0.8 million, and other losses of \$0.3 million.

For the three and six months ended June 30, 2010, net gains of \$64.0 million and \$108.1 million, respectively, primarily related to mark-to-market changes on our Modco trading portfolios associated with the Chase Insurance Group acquisition were also included in realized gains and losses. Of this amount, approximately \$4.9 million and \$18.2 million, respectively, of gains were realized through the sale of certain securities, which will be reimbursed to our reinsurance partners over time through the reinsurance settlement process for this block of business. Additional details on our investment performance and evaluation are provided in the sections below.

Realized investment gains and losses related to derivatives represent changes in the fair value of derivative financial instruments and gains/(losses) on derivative contracts closed during the period.

We use interest rate futures to mitigate interest rate risk. There were no outstanding positions for the six months ended June 30, 2010.

We also have in place various modified coinsurance and funds withheld arrangements that contain embedded derivatives. The \$63.1 million and \$94.2 million of pre-tax losses on these embedded derivatives for the three and six months ended June 30, 2010, respectively, was the result of spread tightening. For the three and six months ended June 30, 2010, the investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had mark-to-market gains that substantially offset the losses on these embedded derivatives.

We use certain interest rate swaps to mitigate interest rate risk related to certain Senior Notes, Medium-Term Notes, and subordinated debt securities. As of June 30, 2010, we did not hold any positions in these swaps.

We use certain interest rate swaps to mitigate the price volatility of assets. These positions resulted in net pre-tax losses of \$6.4 million and \$8.8 million for the three and six months ended June 30, 2010, respectively. The net losses were primarily the result of \$5.3 million and \$6.9 million in mark-to-market losses during the period.

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We reported net pre-tax losses of \$1.1 million and \$0.6 million related to credit default swaps for the three and six months ended June 30, 2010, respectively. The net pre-tax losses for the three and six months ended June 30, 2010, were primarily the result of \$1.2 million and \$0.8 million, respectively, of mark-to-market gains during the period.

The GMWB rider embedded derivatives on certain variable deferred annuities had net unrealized losses of \$49.3 million and \$40.2 million for the three and six months ended June 30, 2010.

We also use various swaps and options to mitigate risk related to other exposures. These contracts generated net gains which were immaterial for the three months ended June 30, 2010, and net pre-tax gains of \$0.8 million for the six months ended June 30, 2010.

Unrealized Gains and Losses Available-for-Sale Securities

The information presented below relates to investments at a certain point in time and is not necessarily indicative of the status of the portfolio at any time after June 30, 2010, the balance sheet date. Information about unrealized gains and losses is subject to rapidly changing conditions, including volatility of financial markets and changes in interest rates. Management considers a number of factors in determining if an unrealized loss is other-than-temporary, including the expected cash to be collected and the intent, likelihood, and/or ability to hold the security until recovery. Consistent with our long-standing practice, we do not utilize a bright line test to determine other-than-temporary impairments. On a quarterly basis, we perform an analysis on every security with an unrealized loss to determine if an other-than-temporary impairment has occurred. This analysis includes reviewing several metrics including collateral, expected cash flows, ratings, and liquidity. Furthermore, since the timing of recognizing realized gains and losses is largely based on management's decisions as to the timing and selection of investments to be sold, the tables and information provided below should be considered within the context of the overall unrealized gain/(loss) position of the portfolio. As of June 30, 2010, we had an overall net unrealized gain of \$490.5 million, prior to tax and DAC offsets, as compared to a \$403.0 million loss as of December 31, 2009.

Credit and RMBS markets have experienced volatility across numerous asset classes over the past two years, primarily as a result of marketplace uncertainty arising from the failure or near failure of a number of large financial service companies resulting in intervention by the United States Federal Government, downgrades in ratings, interest rate changes, higher defaults in sub-prime and Alt-A residential mortgage loans, and a weakening of the overall economy. In connection with this uncertainty, we believe investors have departed from many investments in other asset-backed securities, including those associated with sub-prime and Alt-A residential mortgage loans, as well as types of debt investments with fewer lender protections or those with reduced transparency and/or complex features which may hinder investor understanding. We believe these factors have contributed to the level of our net unrealized investment losses through declines in market values over the past two years.

For fixed maturity and equity securities held that are in an unrealized loss position as of June 30, 2010, the estimated market value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position are presented in the table below:

	Estimated Market Value	% Market Value	Amortized Cost (Dollars In Thousands)	% Amortized Cost	Unrealized Loss	% Unrealized Loss
<= 90 days	\$ 1,393,462	24.3%	\$ 1,460,371	22.9%	\$ (66,909)	10.6%

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>90 days but <= 180 days	411,403	7.2	445,252	7.0	(33,849)	5.3
>180 days but <= 270 days	67,686	1.2	68,732	1.1	(1,046)	0.2
>270 days but <= 1 year	56,303	1.0	61,703	1.0	(5,400)	0.9
>1 year but <= 2 years	329,471	5.7	370,060	5.8	(40,589)	6.4
>2 years but <= 3 years	2,405,601	41.9	2,734,324	42.9	(328,723)	51.9
>3 years but <= 4 years	635,619	11.1	738,436	11.6	(102,817)	16.2
>4 years but <= 5 years	383,922	6.7	431,353	6.8	(47,431)	7.5
>5 years	53,191	0.9	59,622	0.9	(6,431)	1.0
Total	\$ 5,736,658	100.0%	\$ 6,369,853	100.0%	\$ (633,195)	100.0%

The majority of the unrealized loss as of June 30, 2010, for both investment grade and below investment grade securities, is attributable to a widening in credit and mortgage spreads for certain securities. The negative impact of spread levels for certain securities was partially offset by lower treasury yield levels and their associated

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positive effect on security prices. Spread levels have improved since December 31, 2009. However, certain types of securities, including tranches of RMBS and ABS continue to be priced at a level which has caused the unrealized losses noted above. We believe spread levels on these RMBS and ABS are largely due to the continued effects of the economic recession and the economic and market uncertainties regarding future performance of the underlying mortgage loans and/or assets. For further discussion concerning our other-than-temporary impairment review process, see the Risk Management and Impairment Review section on page 78.

As of June 30, 2010, the Barclays Investment Grade Index was priced at 184 bps versus a 10 year average of 172 bps. Similarly, the Barclays High Yield Index was priced at 743 bps versus a 10 year average of 668 bps. As of June 30, 2010, the five, ten, and thirty-year U.S. Treasury obligations were trading at levels of 1.775%, 2.933%, and 3.889%, as compared to 10 year averages of 3.505%, 4.182%, and 4.756%, respectively.

As of June 30, 2010, 32.7% of the unrealized loss was associated with securities that were rated investment grade. We have examined the performance of the underlying collateral and cash flows and expect that our investments will continue to perform in accordance with their contractual terms. Factors such as credit enhancements within the deal structures and the underlying collateral performance/characteristics support the recoverability of the investments. Based on the factors discussed, we do not consider these unrealized loss positions to be other-than-temporary. However, from time to time, we may sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield enhancement, asset-liability management, and liquidity requirements.

Expectations that investments in mortgage-backed and asset-backed securities will continue to perform in accordance with their contractual terms are based on assumptions a market participant would use in determining the current fair value. It is reasonably possible that the underlying collateral of these investments will perform worse than current market expectations and that such event may lead to adverse changes in the cash flows on our holdings of these types of securities. This could lead to potential future write-downs within our portfolio of mortgage-backed and asset-backed securities. Expectations that our investments in corporate securities and/or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through our normal credit surveillance process. Although we do not anticipate such events, it is reasonably possible that issuers of our investments in corporate securities will perform worse than current expectations. Such events may lead us to recognize potential future write-downs within our portfolio of corporate securities. It is also possible that such unanticipated events would lead us to dispose of those certain holdings and recognize the effects of any market movements in our financial statements.

As of June 30, 2010, there were estimated gross unrealized losses of \$78.0 million and \$26.3 million, related to our mortgage-backed securities collateralized by Alt-A mortgage loans and sub-prime mortgage loans, respectively. Gross unrealized losses in our securities collateralized by sub-prime and Alt-A residential mortgage loans as of June 30, 2010, were primarily the result of continued widening spreads, representing marketplace uncertainty arising from higher defaults in sub-prime and Alt-A residential mortgage loans and rating agency downgrades of securities collateralized by sub-prime and Alt-A residential mortgage loans.

For the three and six months ended June 30, 2010, we recorded \$16.8 million and \$28.7 million, respectively, of pre-tax other-than-temporary impairments related to estimated credit losses. 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. Excluding the securities on which other-than-temporary impairments were recorded, we expect these investments to continue to perform in accordance with their original contractual terms. We have the ability and intent to hold these investments until maturity or until the fair values of the investments have recovered, which may be at maturity. Additionally, we do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities.

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We have no material concentrations of issuers or guarantors of fixed maturity securities. The industry segment composition of all securities in an unrealized loss position held as of June 30, 2010, is presented in the following table:

	Estimated Market Value	% Market Value	Amortized Cost (Dollars In Thousands)	% Amortized Cost	Unrealized Loss	% Unrealized Loss
Banking	\$ 948,517	16.5%	\$ 1,046,222	16.4%	\$ (97,705)	15.4%
Other finance	3,874	0.1	3,958	0.1	(84)	0.0
Electric	185,343	3.2	206,054	3.2	(20,711)	3.3
Natural gas	263,274	4.6	282,012	4.4	(18,738)	3.0
Insurance	615,261	10.7	677,927	10.6	(62,666)	9.9
Energy	46,771	0.8	48,709	0.8	(1,938)	0.3
Communications	83,603	1.5	96,830	1.5	(13,227)	2.1
Basic industrial	122,018	2.1	132,018	2.1	(10,000)	1.6
Consumer noncyclical	36,226	0.6	37,315	0.6	(1,089)	0.2
Consumer cyclical	137,490	2.4	150,899	2.4	(13,409)	2.1
Finance companies	125,417	2.2	138,346	2.2	(12,929)	2.0
Capital goods	38,545	0.7	45,134	0.7	(6,589)	1.0
Transportation	61,686	1.1	62,829	1.0	(1,143)	0.2
Other industrial	19,681	0.3	20,449	0.3	(768)	0.1
Brokerage	50,285	0.9	57,824	0.9	(7,539)	1.2
Technology	51,908	0.9	57,552	0.9	(5,644)	0.9
Real estate	369	0.0	490	0.0	(121)	0.0
Other utility	21	0.0	44	0.0	(23)	0.0
Commercial mortgage-backed securities	6,604	0.1	7,007	0.1	(403)	0.1
Other asset-backed securities	690,066	12.0	765,699	12.0	(75,633)	11.9
Residential mortgage-backed non-agency securities	2,017,479	35.2	2,296,246	36.0	(278,767)	44.0
Residential mortgage-backed agency securities	69	0.0	70	0.0	(1)	0.0
U.S. government-related securities	46,539	0.8	48,861	0.8	(2,322)	0.4
Other government-related securities	89,390	1.6	89,510	1.4	(120)	0.0
States, municipals, and political divisions	96,222	1.7	97,848	1.6	(1,626)	0.3
Total	\$ 5,736,658	100.0%	\$ 6,369,853	100.0%	\$ (633,195)	100.0%

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The percentage of our unrealized loss positions, segregated by industry segment, is presented in the following table:

	June 30, 2010	As of December 31, 2009
Banking	15.4%	14.0%
Other finance	0.0	0.0
Electric	3.3	3.9
Natural gas	3.0	2.0
Insurance	9.9	8.2
Energy	0.3	0.4
Communications	2.1	1.9
Basic industrial	1.6	1.6
Consumer noncyclical	0.2	0.8
Consumer cyclical	2.1	1.7
Finance companies	2.0	1.7
Capital goods	1.0	1.2
Transportation	0.2	0.8
Other industrial	0.1	0.4
Brokerage	1.2	1.6
Technology	0.9	0.4
Real estate	0.0	0.1
Other utility	0.0	0.0
Commercial mortgage-backed securities	0.1	8.8
Other asset-backed securities	11.9	8.3
Residential mortgage-backed non-agency securities	44.0	40.7
Residential mortgage-backed agency securities	0.0	0.3
U.S. government-related securities	0.4	0.4
Other government-related securities	0.0	0.1
States, municipals, and political divisions	0.3	0.7
Total	100.0%	100.0%

The range of maturity dates for securities in an unrealized loss position as of June 30, 2010, varies, with 25.8% maturing in less than 5 years, 13.5% maturing between 5 and 10 years, and 60.7% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position as of June 30, 2010:

S&P or Equivalent Designation	Estimated Market Value	% Market Value	Amortized Cost (Dollars In Thousands)	% Amortized Cost	Unrealized Loss	% Unrealized Loss
AAA/AA/A	\$ 1,750,561	30.5%	\$ 1,851,083	29.1%	\$ (100,522)	15.9%
BBB	1,389,119	24.2	1,495,460	23.5	(106,341)	16.8
Investment grade	3,139,680	54.7	3,346,543	52.6	(206,863)	32.7
BB	906,976	15.8	986,744	15.5	(79,768)	12.6
B	653,960	11.4	759,292	11.9	(105,332)	16.6
CCC or lower	1,036,042	18.1	1,277,274	20.0	(241,232)	38.1
Below investment grade	2,596,978	45.3	3,023,310	47.4	(426,332)	67.3
Total	\$ 5,736,658	100.0%	\$ 6,369,853	100.0%	\$ (633,195)	100.0%

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As of June 30, 2010, we held 287 positions of below investment grade securities totaling \$2.6 billion that were in an unrealized loss position. Total unrealized losses related to below investment grade securities were \$426.3 million, of which \$385.4 million had been in an unrealized loss position for more than twelve months. Below investment grade securities in an unrealized loss position were 8.4% of invested assets. As of June 30, 2010, securities in an unrealized loss position that were rated as below investment grade represented 45.3% of the total market value and 67.3% of the total unrealized loss. We have the ability and intent to hold these securities to maturity. After a review of each security and its expected cash flows, we believe the decline in market value to be temporary. Total unrealized losses for all securities in an unrealized loss position for more than twelve months were \$526.0 million. A widening of credit spreads is estimated to account for unrealized losses of \$902.3 million, with changes in treasury rates offsetting this loss by an estimated \$376.3 million.

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In addition, market disruptions in the RMBS market negatively affected the market values of our non-agency RMBS securities. The majority of our RMBS holdings as of June 30, 2010, were super senior or senior bonds in the capital structure. Our non-agency portfolio has a weighted-average life of 2.83 years.

The following table includes the fair value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position for all below investment grade securities as of June 30, 2010:

	Fair Value	% Fair Value	Amortized Cost (Dollars In Thousands)	% Amortized Cost	Unrealized Loss	% Unrealized Loss
<= 90 days	\$ 464,748	17.9%	\$ 499,207	16.5%	\$ (34,459)	8.1%
>90 days but <= 180 days	9,288	0.4	10,248	0.3	(960)	0.2
>180 days but <= 270 days	28,712	1.1	29,097	1.0	(385)	0.1
>270 days but <= 1 year	20,807	0.8	25,961	0.9	(5,154)	1.2
>1 year but <= 2 years	221,901	8.5	258,215	8.5	(36,314)	8.5
>2 years but <= 3 years	1,478,807	56.9	1,745,521	57.7	(266,714)	62.6
>3 years but <= 4 years	191,681	7.4	241,128	8.0	(49,447)	11.6
>4 years but <= 5 years	146,362	5.6	174,221	5.8	(27,859)	6.5
>5 years	34,672	1.4	39,712	1.3	(5,040)	1.2
Total	\$ 2,596,978	100.0%	\$ 3,023,310	100.0%	\$ (426,332)	100.0%

LIQUIDITY AND CAPITAL RESOURCES

We are currently carrying an elevated level of cash and short-term liquid assets. Our ability to find acceptable long-term investments has been negatively impacted by spread movements, lack of supply, and overall market yields. We remain focused on investing such holdings at acceptable yield levels, while maintaining compliance with our established investment guidelines.

Carrying an elevated level of cash and short-term liquid assets, while significantly reducing our liquidity risk, negatively impacts our earnings results as the yield on such assets is much lower than the yields on longer-dated, higher risk assets.

Liquidity

Liquidity refers to a company's ability to generate adequate amounts of cash to meet its needs. We meet our liquidity requirements primarily through positive cash flows from our operating subsidiaries. Primary sources of cash from the operating subsidiaries are premiums, deposits for policyholder accounts, investment sales and maturities, and investment income. Primary uses of cash for the operating subsidiaries include benefit payments, withdrawals from policyholder accounts, investment purchases, policy acquisition costs, and other operating expenses. We believe that we have sufficient liquidity to fund our cash needs under normal operating scenarios.

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In the event of significant unanticipated cash requirements beyond our normal liquidity requirements, we have additional sources of liquidity available depending on market conditions and the amount and timing of the liquidity need. These additional sources of liquidity include cash flows from operations, the sale of liquid assets, accessing our credit facility, and other sources described herein.

Our decision to sell investment assets could be impacted by accounting rules, including rules relating to the likelihood of a requirement to sell securities before recovery of our cost basis. Under stressful market and economic conditions, liquidity may broadly deteriorate which could negatively impact our ability to sell investment assets. If we require on short notice significant amounts of cash in excess of normal requirements, we may have difficulty selling investment assets in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

While we anticipate that the cash flows of our operating subsidiaries will be sufficient to meet our investment commitments and operating cash needs in a normal credit market environment, we recognize that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, we have established repurchase agreement programs for certain of our insurance subsidiaries to provide liquidity when needed. We expect that the rate received on our investments will equal or exceed our borrowing rate. As of June 30, 2010, we had no outstanding balance related to such borrowings. During the six months ended June

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30, 2010, we had a maximum balance outstanding of \$300.0 million related to these programs. The average daily balance was \$92.8 million, during the six months ended June 30, 2010.

Additionally, we may, from time to time, sell short-duration stable value products to complement our cash management practices. Depending on market conditions, we may also use securitization transactions involving our commercial mortgage loans to increase liquidity for the operating subsidiaries.

Credit Facility

Under a revolving line of credit arrangement, we have the ability to borrow on an unsecured basis up to an aggregate principal amount of \$500 million (the Credit Facility). We have the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of \$600 million. Balances outstanding under the Credit Facility accrue interest at a rate equal to (i) either the prime rate or the London Interbank Offered Rate (LIBOR), plus (ii) a spread based on the ratings of our senior unsecured long-term debt. The Credit Agreement provides that we are liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date on the Credit Facility is April 16, 2013. There was an outstanding balance of \$115.0 million at an interest rate of LIBOR plus 0.40% under the Credit Facility as of June 30, 2010. As discussed in more detail in Capital Resources below, in the second quarter of 2010, we repaid \$180.0 million of the outstanding balance of the credit facility that was previously used to purchase non-recourse funding obligations issued by an indirect, wholly owned special purpose financial captive insurance company. For additional information related to special purpose financial captives, see Capital Resources. We were not aware of any non-compliance with the financial debt covenants of the Credit Facility as of June 30, 2010.

Sources and Use of Cash

Our primary sources of funding are dividends from our operating subsidiaries; revenues from investment, data processing, legal, and management services rendered to subsidiaries; investment income; and external financing. These sources of cash support our general corporate needs including our common stock dividends and debt service. The states in which our insurance subsidiaries are domiciled impose certain restrictions on the insurance subsidiaries' ability to pay us dividends. These restrictions are based in part on the prior year's statutory income and surplus. Generally, these restrictions pose no short-term liquidity concerns. We plan to retain substantial portions of the earnings of our insurance subsidiaries in those companies primarily to support their future growth.

We are a member of the Federal Home Loan Bank (FHLB) of Cincinnati. FHLB advances provide an attractive funding source for short-term borrowing and for the sale of funding agreements. Membership in the FHLB requires that we purchase FHLB capital stock based on a minimum requirement and a percentage of the dollar amount of advances outstanding. Our borrowing capacity is determined by the following factors: 1) total advance capacity is limited to the lower of 50% of total assets or 100% of mortgage-related assets of Protective Life Insurance Company, our largest insurance subsidiary, 2) ownership of appropriate capital and activity stock to support continued membership in the FHLB and current and future advances, and 3) the availability of adequate eligible mortgage or treasury/agency collateral to back current and future advances.

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We held \$60.7 million of common stock as of June 30, 2010, which is included in equity securities. In addition, our obligations under the advances must be collateralized. We maintain control over any such pledged assets, including the right of substitution. As of June 30, 2010, we had \$901.0 million of funding agreement-related advances and accrued interest outstanding under the FHLB program.

As of June 30, 2010, we reported approximately \$597.3 million (fair value) of Auction Rate Securities (ARS) in non-Modco portfolios. All of these ARS were rated AAA. While the auction rate market has experienced liquidity constraints, we believe that based on our current liquidity position and our operating cash flows, any lack of liquidity in the ARS market will not have a material impact on our liquidity, financial condition, or cash flows.

All of the auction rate securities held in non-Modco portfolios as of June 30, 2010, were student loan-backed auction rate securities, for which the underlying collateral is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). As there is no current active market for these auction rate securities, we believe the best available source for current valuation information is from actively-traded asset-backed securities with comparable underlying assets (i.e. FFELP-backed student loans) and vintage.

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We use an internal valuation model to determine the fair value of our student loan-backed auction rate securities held in non-Modco portfolios. The model uses the discount margin and projected average life of a comparable actively-traded FFELP student loan-backed floating-rate asset-backed security, along with a discount related to the current illiquidity of the auction rate securities. This comparable security is selected based on its underlying assets (i.e. FFELP-backed student loans) and vintage.

The auction rate securities held in non-Modco portfolios are classified as a Level 3 valuation. An unrealized loss of \$60.1 million was recorded as of June 30, 2010, and an unrealized loss of \$26.0 million was recorded as of June 30, 2009, and we have not recorded any other-than-temporary impairment because the underlying collateral for each of the auction rate securities is at least 97% guaranteed by the FFELP and there are subordinate tranches within each of these auction rate security issuances that would support the senior tranches in the event of default. In the event of a complete and total default by all underlying student loans, the principal shortfall, in excess of the 97% FFELP guarantee, would be absorbed by the subordinate tranches. Our non-performance exposure is to the FFELP guarantee, not the underlying student loans. At this time, we have no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, we have the ability and intent to hold these securities until their values recover or maturity. Therefore, we believe that no other-than-temporary impairment has been experienced.

The liquidity requirements of our regulated insurance subsidiaries primarily relate to the liabilities associated with their various insurance and investment products, operating expenses, and income taxes. Liabilities arising from insurance and investment products include the payment of policyholder benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans, and obligations to redeem funding agreements.

Our insurance subsidiaries have used cash flows from operations and investment activities as a primary source to fund their liquidity requirements. Our insurance subsidiaries' primary cash inflows from operating activities are derived from premiums, annuity deposits, stable value contract deposits, and insurance and investment product fees and other income, including cost of insurance and surrender charges, contract underwriting fees, and intercompany dividends or distributions. The principal cash inflows from investment activities result from repayments of principal, investment income, and as necessary, sales of invested assets.

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits and expected surrenders, withdrawals, loans, and redemption obligations without forced sales of investments. In addition, our insurance subsidiaries hold highly liquid, high-quality short-term investment securities and other liquid investment grade fixed maturity securities to fund our expected operating expenses, surrenders, and withdrawals. As of June 30, 2010, our total cash, cash equivalents, and invested assets were \$31.0 billion. The life insurance subsidiaries were committed as of June 30, 2010, to fund mortgage loans in the amount of \$216.0 million.

Our positive cash flows from operations are used to fund an investment portfolio that provides for future benefit payments. We employ a formal asset/liability program to manage the cash flows of our investment portfolio relative to our long-term benefit obligations. Our subsidiaries held approximately \$1.1 billion in cash and short-term investments as of June 30, 2010, and we held an immaterial amount in cash and short-term investments available for general corporate purposes.

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The following chart includes the cash flows provided by or used in operating, investing, and financing activities for the following periods:

	For The Six Months Ended June 30,		
	2010		2009
	(Dollars In Thousands)		
Net cash provided by operating activities	\$ 558,279	\$	604,410
Net cash (used in) provided by investing activities	(690,752)		3,684
Net cash provided by (used in) financing activities	83,672		(550,912)
Total	\$ (48,801)	\$	57,182

For The Six Months Ended June 30, 2010 as compared to The Six Months Ended June 30, 2009

Net cash provided by operating activities - Cash flows from operating activities are affected by the timing of premiums received, fees received, investment income, and expenses paid. Principal sources of cash include sales of our products and services. As an insurance business, we typically generate positive cash flows from operating activities, as premiums and deposits collected from our insurance and investment products exceed benefits paid and redemptions, and we invest the excess. Accordingly, in analyzing our cash flows we focus on the change in the amount of cash available and used in investing activities.

Net cash (used in) provided by investing activities - Changes in cash from investing activities primarily related to the activity in our investment portfolio. The change in net cash (used in) provided by investing activities was primarily due to an increase in net purchases of fixed maturity securities, partially offset by an increase of sales of fixed maturity securities. We have been challenged to find opportunities to invest our excess liquidity at desired yield levels. However, as opportunities arise to invest our more liquid holdings in long-term investments, purchase activity can be expected to increase.

Net cash provided by (used in) financing activities - Changes in cash from financing activities primarily relate to the issuance and repayment of borrowings, dividends to our stockholders, and other capital transactions, as well as the issuance of, and redemptions and benefit payments on, investment contracts. The variance for six months ended June 30, 2010 as compared to the six months ended June 30, 2009, was primarily the result of investment product and universal life net withdrawal activity, which was approximately \$1.0 billion higher than activity in the six months ended June 30, 2010. Offsetting this was the issuance of common stock that occurred during in the six months ended June 30, 2009.

Capital Resources

To give us flexibility in connection with future acquisitions and other funding needs, we have debt securities, preferred and common stock, and additional preferred securities of special purpose finance subsidiaries registered under the Securities Act of 1933 on a delayed (or shelf) basis.

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As of June 30, 2010, our capital structure consisted of Medium-Term Notes, Senior Notes, Subordinated Debentures, and shareowners' equity. We also have a \$500 million revolving line of credit (the Credit Facility), under which we could borrow funds with balances due April 16, 2013. The line of credit arrangement contains, among other provisions, requirements for maintaining certain financial ratios and restrictions on the indebtedness that we and our subsidiaries can incur. Additionally, the line of credit arrangement precludes us, on a consolidated basis, from incurring debt in excess of 40% of our total capital. Pursuant to an amendment, this calculation excludes the \$800.0 million of senior notes we issued in 2009. As of June 30, 2010, there was a \$115.0 million outstanding balance under the Credit Facility at an interest rate of LIBOR plus 0.40%. During the second quarter of 2010, Golden Gate Captive Insurance Company (Golden Gate), a South Carolina special purpose financial captive and wholly owned subsidiary of PLICO, redeemed \$180 million of its Series B Surplus Notes from us. We used the proceeds of this redemption to repay \$180 million of the outstanding balance of our Credit Facility. We hold the entire \$800.0 million outstanding balance of Golden Gate Surplus Notes.

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Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by PLICO, had \$575 million of outstanding non-recourse funding obligations as of June 30, 2010. Of this amount, \$556.6 million was held by external parties and \$18.4 million was held by an affiliate. These non-recourse funding obligations mature in 2052. We do not anticipate having to pursue additional funding related to this block of business; however, we have contingent approval to issue an additional \$100 million of obligations if necessary. \$275 million of this amount is currently accruing interest at a rate of LIBOR plus 30 basis points. We have experienced higher proportional borrowing costs associated with \$300 million of our non-recourse funding obligations supporting the business reinsured to Golden Gate II. These higher costs are the result of a higher spread component interest costs associated with the illiquidity of the current market for auction rate securities, as well as a rating downgrade of our guarantor by certain rating agencies. The current rate associated with these obligations is LIBOR plus 200 basis points, which is the maximum rate we can be required to pay under these obligations.

These non-recourse funding obligations are direct financial obligations of Golden Gate II and are not guaranteed by us or PLICO. These non-recourse obligations are represented by surplus notes that were issued to fund a portion of the statutory reserves required by Regulation XXX. Under the terms of the surplus notes, the holders of the surplus notes cannot require repayment from us or any of our subsidiaries, other than Golden Gate II, the direct issuers of the surplus notes, although we have agreed to indemnify Golden Gate II for certain costs and obligations (which obligations do not include payment of principal and interest on the surplus notes). In addition, we have entered into certain support agreements with Golden Gate II obligating us to make capital contributions or provide support related to certain of Golden Gate II's expenses and in certain circumstances, to collateralize certain of our obligations to Golden Gate II.

During the quarter, PLICO formed a new wholly owned subsidiary, Golden Gate III, which entered into a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, UBS issued a Letter of Credit (LOC) in the initial amount of \$505 million to a trust for the benefit of our indirect wholly owned subsidiary, West Coast Life Insurance Company (WCL). Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of \$610 million in 2013. The term of the LOC is expected to be eight years, subject to certain conditions including capital contributions made to Golden Gate III by PLICO or one of its affiliates. The LOC was issued to support certain obligations of Golden Gate III from WCL under an indemnity reinsurance agreement effective April 1, 2010. These policies were originally ceded by WCL to Golden Gate and were recaptured by WCL and ceded to Golden Gate III concurrent with this transaction. The estimated average annual expense of the LOC under GAAP is approximately \$11 million, after tax.

Pursuant to the terms of the Reimbursement Agreement, in the event amounts are drawn under the LOC by the trustee on behalf of WCL, Golden Gate III will be obligated, subject to certain conditions, to reimburse UBS for the amount of any draw and any interest thereon. The Reimbursement Agreement is non-recourse to us, PLICO and WCL. Pursuant to the terms of a letter agreement, we have agreed to guarantee the payment of fees to UBS under the Reimbursement Agreement. Pursuant to the Reimbursement Agreement, Golden Gate III has collateralized its obligations to UBS by granting UBS a security interest in its assets.

On May 10, 2010, our Board of Directors extended our previously authorized \$100 million share repurchase program. The current authorization extends through May 9, 2013. We have not repurchased any of our common stock under the existing and/or recently approved share repurchase program during the six months ended June 30, 2010. Future activity will be dependent upon many factors, including capital levels, liquidity needs, rating agency expectations, and the relative attractiveness of alternative uses for capital.

A life insurance company's statutory capital is computed according to rules prescribed by NAIC, as modified by state law. Generally speaking, other states in which a company does business defer to the interpretation of the domiciliary state with respect to NAIC rules, unless inconsistent with the other state's regulations. Statutory accounting rules are different from GAAP and are intended to reflect a more conservative view, for example, requiring immediate expensing of policy acquisition costs. The NAIC's risk-based capital requirements require insurance companies to calculate and report information under a risk-based capital formula. The achievement of long-term growth will require growth in the statutory capital of our insurance subsidiaries. The subsidiaries may secure additional statutory capital through various sources, such as retained statutory

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earnings or our equity contributions. In general, dividends up to specified levels are considered ordinary and may be paid thirty days after written notice to the insurance commissioner of the state of domicile unless such commissioner objects to the dividend prior to the expiration of such period. Dividends in larger amounts are considered extraordinary and are

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subject to affirmative prior approval by such commissioner. The maximum amount that would qualify as ordinary dividends to us from our insurance subsidiaries in 2010 is estimated to be \$704.8 million.

State insurance regulators and the NAIC have adopted risk-based capital (RBC) requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile.

A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense, and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to the RBC. Under RBC requirements, regulatory compliance is determined by the ratio of a company's total adjusted capital, as defined by the insurance regulators, to its company action level of RBC (known as the RBC ratio), also as defined by insurance regulators.

We cede material amounts of insurance and transfer related assets to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets, we remain liable with respect to ceded insurance should any reinsurer fail to meet the obligations that such reinsurer assumed. We evaluate the financial condition of our reinsurers and monitor the associated concentration of credit risk. For the three and six months ended June 30, 2010, we ceded premiums to third party reinsurers amounting to \$379.7 million and \$685.6 million, respectively. In addition, we had receivables from reinsurers amounting to \$5.6 billion as of June 30, 2010. We review reinsurance receivable amounts for collectability and establish bad debt reserves if deemed appropriate.

During 2008, Scottish Re US (SRUS) received a statutory accounting permitted practice from the Delaware Department of Insurance (the Department) that, in light of decreases in the fair value of the securities in SRUS's qualifying reserve credit trust accounts on business ceded to certain securitization companies, relieved SRUS of the need to receive additional capital contributions. On January 5, 2009, the Department issued an order of supervision (the Order of Supervision) against SRUS, in accordance with Delaware law, which, among other things, requires the Department's consent to any transaction outside the ordinary course of business, and which, in large part, formalized certain reporting and processes already informally in place between SRUS and the Department. On April 3, 2009, the Department issued an Extended and Amended Order of Supervision against SRUS which, among other things, clarified that payments made by SRUS to its ceding insurers in satisfaction of claims or other obligations are not subject to the Department's approval, but that any amendments to its reinsurance agreements must be disclosed to and approved by the Department. SRUS continues to promptly pay claims and satisfy its other obligations to our insurance subsidiaries. We cannot predict what these or other changes in the status of SRUS's financial condition may have on our ability to take reserve credit for the business ceded to SRUS. If we were unable to take reserve credit for the business ceded to SRUS, it could have a material adverse impact on both our GAAP and statutory financial condition and results of operations. As of June 30, 2010, we had approximately \$198.8 million of GAAP recoverables from SRUS, and \$532.9 million of ceded statutory reserves related to SRUS.

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Various Nationally Recognized Statistical Rating Organizations (rating organizations) review the financial performance and condition of insurers, including our insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contract holder obligations. These ratings are important to maintaining public confidence in an insurer's products, its ability to market its products and its competitive position. Rating organizations also publish credit ratings for the issuers of debt securities, including the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important in the debt issuer's overall ability to access credit markets and other types of liquidity. Ratings are not recommendations to buy our securities. The following table summarizes the ratings of our significant member companies from the major independent rating organizations as of June 30, 2010:

Ratings	A.M. Best	Fitch	Standard & Poor's	Moody's
Insurance companies financial strength ratings:				
Protective Life Insurance Company	A+	A	AA-	A2
West Coast Life Insurance Company	A+	A	AA-	A2
Protective Life and Annuity Insurance Company	A+	A	AA-	
Lyndon Property Insurance Company	A-			
Other ratings:				
Issuer Credit/Default Rating - Protective Life Corporation	a-	BBB+	A-	
Senior Debt Rating - Protective Life Corporation		BBB		Baa2
Issuer Credit/Default Rating - Protective Life Ins. Co.	aa-		AA-	

Our ratings are subject to review and change by the rating organizations at any time and without notice. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of our insurance subsidiaries could adversely affect sales, relationships with distributors, the level of policy surrenders and withdrawals, competitive position in the marketplace, and the cost or availability of reinsurance. A downgrade or other negative action by a ratings organization with respect to our credit rating could limit our access to capital markets, increase the cost of issuing debt, and a downgrade of sufficient magnitude, combined with other negative factors, could require us to post collateral.

LIABILITIES

Many of our products contain surrender charges and other features that are designed to reward persistency and penalize the early withdrawal of funds. Certain stable value and annuity contracts have market-value adjustments that are designed to protect us against investment losses if interest rates are higher at the time of surrender than at the time of issue.

As of June 30, 2010, we had policy liabilities and accruals of approximately \$18.9 billion. Our interest-sensitive life insurance policies have a weighted-average minimum credited interest rate of approximately 3.70%.

Contractual Obligations

The table below sets forth future maturities of debt, non-recourse funding obligations, subordinated debt securities, stable value products, operating lease obligations, other property lease obligations, mortgage loan commitments, and policyholder obligations.

We enter into various obligations to third parties in the ordinary course of our operations. However, we do not believe that our cash flow requirements can be assessed based upon an analysis of these obligations. The most significant factor affecting our future cash flows is our ability to earn and collect cash from our customers. Future cash outflows, whether they are contractual obligations or not, will also vary based upon our future needs. Although some outflows are fixed, others depend on future events. Examples of fixed obligations include our obligations to pay principal and interest on fixed-rate borrowings. Examples of obligations that will vary include obligations to pay interest on variable-rate borrowings and insurance liabilities that depend on future interest rates, market performance, or surrender provisions. Many of our obligations are linked to cash-generating contracts. In addition, our operations involve significant expenditures that are not based upon commitments. These include expenditures for income taxes and payroll.

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As of June 30, 2010, we carried a \$21.5 million liability for uncertain tax positions, including interest on unrecognized tax benefits. These amounts are not included in the long-term contractual obligations table because of the difficulty in making reasonably reliable estimates of the occurrence or timing of cash settlements with the respective taxing authorities.

	Total	Less than 1 year	Payments due by period		
			1-3 years (Dollars In Thousands)	3-5 years	More than 5 years
Long-term debt(1)	\$ 2,741,164	\$ 91,992	\$ 556,409	\$ 304,650	\$ 1,788,113
Non-recourse funding obligations(2)	909,640	7,905	15,810	15,810	870,115
Subordinated debt securities(3)	1,846,729	37,147	74,294	74,294	1,660,994
Stable value products(4)	3,951,722	1,293,474	1,259,176	755,304	643,768
Operating leases(5)	31,459	7,050	11,120	8,808	4,481
Home office lease(6)	77,756	782	1,568	75,406	
Mortgage loan commitments	216,007	216,007			
Policyholder obligations(7)	24,484,818	2,341,628	3,428,345	3,096,533	15,618,312
Total(8)	\$ 34,259,295	\$ 3,995,985	\$ 5,346,722	\$ 4,330,805	\$ 20,585,783

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- (1) Long-term debt includes all principal amounts owed on note agreements and expected interest payments due over the term of the notes.
- (2) Non-recourse funding obligations include all principal amounts owed on note agreements and expected interest payments due over the term of the notes.
- (3) Subordinated debt securities includes all principal amounts owed to our non-consolidated special purpose finance subsidiaries and interest payments due over the term of the obligations.
- (4) Anticipated stable value products cash flows including interest.
- (5) Includes all lease payments required under operating lease agreements.
- (6) The lease payments shown assume we exercise our option to purchase the building at the end of the lease term. Additionally, the payments due by the periods above were computed based on the terms of the renegotiated lease agreement, which was entered in January 2007.
- (7) Estimated contractual policyholder obligations are based on mortality, morbidity, and lapse assumptions comparable to our historical experience, modified for recent observed trends. These obligations are based on current balance sheet values and include expected interest crediting, but do not incorporate an expectation of future market growth, or future deposits. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. As variable separate account obligations are legally insulated from general account obligations, the variable separate account obligations will be fully funded by cash flows from variable separate account assets. We expect to fully fund the general account obligations from cash flows from general account investments.
- (8) This total does not take into account estimated payments related to our qualified or unfunded excess benefit plans in future periods.

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FAIR VALUE OF FINANCIAL INSTRUMENTS

On January 1, 2008, we adopted FASB guidance on fair value measurements and disclosures. This guidance defines fair value for GAAP and establishes a framework for measuring fair value as well as a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The term "fair value" in this document is defined in accordance with GAAP. The standard describes three levels of inputs that may be used to measure fair value. For more information, see Note 1, *Basis of Presentation* and Note 13, *Fair Value of Financial Instruments*.

Available-for-sale securities and trading account securities are recorded at fair value, which is primarily based on actively-traded markets where prices are based on either direct market quotes or observed transactions. Liquidity is a significant factor in the determination of the fair value for these securities. Market price quotes may not be readily available for some positions or for some positions within a market sector where trading activity has slowed significantly or ceased. These situations are generally triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial position, changes in credit ratings, and cash flows on the investments. As of June 30, 2010, \$898.8 million of available-for-sale and trading account assets, excluding other long-term investments, were classified as Level 3 fair value assets.

The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, and other deal specific factors, where appropriate. The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The predominance of market inputs are actively quoted and can be validated through external sources. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case quantitative based extrapolations of rate, price, or index scenarios are used in determining fair values. As of June 30, 2010, the Level 3 fair values of derivative assets and liabilities determined by these quantitative models were \$9.5 million and \$233.2 million, respectively.

The liabilities of certain of our annuity account balances are calculated at fair value using actuarial valuation models. These models use various observable and unobservable inputs including projected future cash flows, policyholder behavior, our credit rating, and other market conditions. As of June 30, 2010, the Level 3 fair value of these liabilities was \$149.4 million.

For securities that are priced via non-binding independent broker quotations, we assess whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. We use a market-based cash flow analysis to validate the reasonableness prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if we determine there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly.

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Of our \$908.3 million of total assets (measured at fair value on a recurring basis) classified as Level 3 assets, \$698.4 million were ABS. Of this amount, \$621.8 million were student loan related ABS, \$36.6 million were non-student loan related ABS, and \$40.0 million were commercial mortgage-backed securitizations. The years of issuance of the ABS are as follows:

Year of Issuance	Amount (In Millions)
2002	\$ 311
2003	109
2004	114
2005	16
2006	26
2007	82
2010	40
Total	\$ 698

The ABS was rated as follows: \$626.4 million were AAA rated, \$25.6 million were AA rated, and \$46.4 million were A rated. We do not expect any downgrade in the ratings of the securities related to student loans since the underlying collateral of the student loan asset-backed securities is guaranteed by the U.S. Department of Education.

MARKET RISK EXPOSURES AND OFF-BALANCE SHEET ARRANGEMENTS

Our financial position and earnings are subject to various market risks including changes in interest rates, changes in the yield curve, changes in spreads between risk-adjusted and risk-free interest rates, changes in foreign currency rates, changes in used vehicle prices, and equity price risks and issuer defaults. We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, through an integrated asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines; cash flow testing under various interest rate scenarios; and the continuous rebalancing of assets and liabilities with respect to yield, risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, and equity market risk.

The primary focus of our asset/liability program is the management of interest rate risk within the insurance operations. This includes monitoring the duration of both investments and insurance liabilities to maintain an appropriate balance between risk and profitability for each product category, and for us as a whole. It is our policy to maintain asset and liability durations within one-half year of one another, although, from time to time, a broader interval may be allowed.

We are exposed to credit risk within our investment portfolio and through derivative counterparties. Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. We manage credit risk through established investment policies which attempt to address quality of obligors and counterparties, credit concentration limits, diversification requirements, and acceptable risk levels under expected and stressed scenarios. Derivative counterparty credit risk is measured as the amount owed to us based upon current market conditions and potential payment obligations between us and our counterparties. We minimize the credit risk in derivative instruments by entering into transactions with high quality counterparties, (A-rated or higher at the time we enter into the contract) and we typically maintain collateral support agreements with those counterparties.

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

We have sold credit default protection on liquid traded indices to enhance the return on our investment portfolio. These credit default swaps create credit exposure similar to an investment in publicly-issued fixed maturity cash investments. Outstanding credit default swaps related to the Investment Grade Series 9 Index and have

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terms to December 2017. Defaults within the Investment Grade Series 9 Index that exceeded the 10% attachment point would require us to perform under the credit default swaps, up to the 15% exhaustion point. The maximum potential amount of future payments (undiscounted) that we could be required to make under the credit derivatives is \$25.0 million. As of June 30, 2010, the fair value of the credit derivatives was a liability of \$3.0 million.

As a result of the ongoing disruption in the credit markets, the fair value of these derivatives is expected to fluctuate in response to changing market conditions. We believe that the unrealized loss recorded on the \$25.0 million notional of credit default swaps is not indicative of the economic value of the investment. We expect the unrealized loss to reverse over the remaining life of the credit default swap portfolio.

Derivative instruments expose us to credit and market risk and could result in material changes from quarter-to-quarter. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage 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. We monitor our use of derivatives in connection with our overall asset/liability management programs and procedures.

In the ordinary course of our commercial mortgage lending operations, we will commit to provide a mortgage loan before the property to be mortgaged has been built or acquired. The mortgage loan commitment is a contractual obligation to fund a mortgage loan when called upon by the borrower. The commitment is not recognized in our financial statements until the commitment is actually funded. The mortgage loan commitment contains terms, including the rate of interest, which may be different than prevailing interest rates. As of June 30, 2010, we had outstanding mortgage loan commitments of \$216.0 million at an average rate of 6.34%.

We believe our asset/liability management programs and procedures and certain product features provide protection against the effects of changes in interest rates under various scenarios. Additionally, we believe our asset/liability management programs and procedures provide sufficient liquidity to enable us to fulfill our obligation to pay benefits under our various insurance and deposit contracts. However, our asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve), relationships between risk-adjusted and risk-free interest rates, market liquidity, spread movements and other factors, and the effectiveness of our asset/liability management programs and procedures may be negatively affected whenever actual results differ from those assumptions.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2, *Summary of Significant Accounting Policies*, to the consolidated condensed financial statements for information regarding recently issued accounting standards.

RECENT DEVELOPMENTS

In 2009, the NAIC approved regulatory changes that impacted our insurance subsidiaries and their competitors. The NAIC also approved changes to the measurements used to determine the amount of deferred tax assets (DTAs) an insurance company may claim as admitted assets

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on its statutory financial statements. These changes had the effect of increasing the amount of DTAs an insurance company was permitted to claim as an admitted asset for purposes of insurance company statutory financial statements filed for calendar year 2009 and is expected to have the same effect in 2010. In addition, the NAIC adopted a temporary modification to the Mortgage Experience Adjustment Factor (MEAF) for calendar year 2009 that reduced the factor's volatility. However, the NAIC is currently considering further changes to the MEAF for 2010 that, if approved, will have the effect of increasing the amount of capital that the Company must hold for its commercial mortgages.

The NAIC is also considering various initiatives to change and modernize its financial and solvency regulations. It is considering changing to a principles-based reserving method for life insurance and annuity reserves, changes to the accounting and risk-based capital regulations, changes to the governance practices of insurers, and other items. Some of these proposed changes would require the approval of state legislatures. We cannot provide any assurance as to what impact these proposed changes, if they occur, will have on our reserve and capital requirements.

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IMPACT OF INFLATION

Inflation increases the need for life insurance. Many policyholders who once had adequate insurance programs may increase their life insurance coverage to provide the same relative financial benefit and protection. Higher interest rates may result in higher sales of certain of our investment products.

The higher interest rates that have traditionally accompanied inflation could also affect our operations. Policy loans increase as policy loan interest rates become relatively more attractive. As interest rates increase, disintermediation of stable value and annuity account balances and individual life policy cash values may increase. The market value of our fixed-rate, long-term investments may decrease, we may be unable to implement fully the interest rate reset and call provisions of our mortgage loans, and our ability to make attractive mortgage loans, including participating mortgage loans, may decrease. In addition, participating mortgage loan income may decrease. The difference between the interest rate earned on investments and the interest rate credited to life insurance and investment products may also be adversely affected by rising interest rates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, Executive Summary and Liquidity and Capital Resources, and Part II, Item 1A, *Risk Factors* of this Report for market risk disclosures in light of the current difficult conditions in the financial and credit markets, and the economy generally.

Item 4. Controls and Procedures

(a) Disclosure controls and procedures

In order to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized and reported on a timely basis, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective. It should be noted that any system of controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of any control system is based in part upon certain judgments, including the costs and benefits of controls and the likelihood of future events. Because of these and other inherent limitations of control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected.

(b) Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the period ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's internal controls exist within a dynamic environment and the Company continually strives to improve its internal controls and procedures to enhance the quality of its financial reporting.

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PART II

Item 1A. Risk Factors and Cautionary Factors that may Affect Future Results

The operating results of companies in the insurance industry have historically been subject to significant fluctuations. The factors which could affect the Company's future results include, but are not limited to, general economic conditions and known trends and uncertainties. In addition to other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results* in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect the Company's business, financial condition, or future results of operations.

The Company is exposed to the risks of natural and man-made catastrophes, pandemics, malicious acts, terrorist acts and climate change, which could adversely affect the Company's operations and results.

While the Company has obtained insurance, implemented risk management and contingency plans, and taken preventive measures and other precautions, no predictions of specific scenarios can be made nor can assurance be given that there are not scenarios that could have an adverse effect on the Company. A natural or man-made catastrophe, pandemic, malicious act, terrorist act, or climate change, could adversely affect the mortality, morbidity, or other experience of the Company or its reinsurers and have a significant negative impact on the Company. In addition, claims arising from the occurrence of such events or conditions could have a material adverse effect on the Company's financial condition and results of operations. Such events or conditions could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies.

In addition, such events or conditions could result in a decrease or halt in economic activity in large geographic areas, adversely affecting the marketing or administration of the Company's business within such geographic areas and/or the general economic climate, which in turn could have an adverse effect on the Company. Such events or conditions could also result in additional regulation or restrictions on the Company in the conduct of its business. The possible macroeconomic effects of such events or conditions could also adversely affect the Company's asset portfolio, as well as many other variables.

The Company's strategies for mitigating risks arising from its day-to-day operations may prove ineffective resulting in a material adverse effect on its results of operations and financial condition.

The Company's performance is highly dependent on its ability to manage risks that arise from a large number of its day-to-day business activities, including underwriting, claims processing, policy administration and servicing, execution of its investment strategy, financial and tax reporting and other activities, many of which are very complex. The Company also may rely on third parties for such activities. The Company seeks to monitor and control its exposure to risks arising out of or related to these activities through a variety of internal controls, management review processes, and other mechanisms. However, the occurrence of unforeseen or un-contemplated risks, or the occurrence of risks of a greater magnitude than expected, including those arising from a failure in processes, procedures or systems implemented by the Company or a failure on the part of employees or third parties upon which the Company relies in this regard, may have a material adverse effect on the Company's financial condition or results of operations.

Insurance companies are highly regulated and subject to numerous legal restrictions and regulations.

The Company and its subsidiaries are subject to government regulation in each of the states in which they conduct business. Such regulation is vested in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of the Company's business, which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than shareowners. In addition, some state insurance departments may enact rules or regulations with extra-territorial application, effectively extending their jurisdiction to areas such as permitted insurance company investments that are normally the province of an insurance company's domiciliary state regulator. At any given time, a number of financial and/or market conduct examinations of the Company's subsidiaries may be ongoing. From time to time, regulators raise issues during examinations or audits of the Company's subsidiaries that could, if determined adversely, have a material impact on the Company. The Company's insurance subsidiaries are required to obtain state regulatory approval for

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rate increases for certain health insurance products, and the Company's profits may be adversely affected if the requested rate increases are not approved in full by regulators in a timely fashion.

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 cannot predict the amount or timing of any future assessments.

The purchase of life insurance products is limited by state insurable interest laws, which in most jurisdictions require that the purchaser of life insurance name a beneficiary that has some interest in the sustained life of the insured. To some extent, the insurable interest laws present a barrier to the life settlement, or "stranger-owned" industry, in which a financial entity acquires an interest in life insurance proceeds, and efforts have been made in some states to liberalize the insurable interest laws. To the extent these laws are relaxed, the Company's lapse assumptions may prove to be incorrect.

Although the Company and its subsidiaries are subject to state regulation, in many instances the state regulatory models emanate from the National Association of Insurance Commissioners (NAIC). State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and at the expense of the insurer and, thus, could have a material adverse effect on the Company's financial condition and results of operations. The Company is also subject to the risk that compliance with any particular regulator's interpretation of a legal or accounting issue may not result in compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. There is an additional risk that any particular regulator's interpretation of a legal or accounting issue may change over time to the Company's detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause the Company to change its views regarding the actions it needs to take from a legal risk management perspective, which could necessitate changes to the Company's practices that may, in some cases, limit its ability to grow and improve profitability.

Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Statutes, regulations, and interpretations may be applied with retroactive impact, particularly in areas such as accounting and reserve requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products. As an example of both retroactive and prospective impacts, in late 2005, the NAIC approved an amendment to Actuarial Guideline 38 (AG38), commonly known as AXXX, which interprets the reserve requirements for universal life insurance with secondary guarantees. This amendment retroactively increased the reserve requirements for universal life insurance with secondary guarantee products issued after July 1, 2005. This change to AG38 also affected the profitability of universal life products sold after the adoption date. The NAIC is continuing to study reserving methodology and has issued additional changes to AXXX and Regulation XXX, which have had the effect of modestly decreasing the reserves required for certain traditional and universal life policies that were issued on January 1, 2007 and later. In addition, accounting and actuarial groups within the NAIC have studied whether to change the accounting standards that relate to certain reinsurance credits, and if changes were made, whether they should be applied retrospectively, prospectively only, or in a phased-in manner. A requirement to reduce the reserve credits on ceded business, if applied retroactively, would have a negative impact on the statutory capital of the Company. The NAIC continues to work to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

At the federal level, bills are routinely introduced in both chambers of the United States Congress which could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter. The Company cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect the Company or whether any effects will be material. On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act of 2010 (the Healthcare Act) into law. The Healthcare Act makes sweeping changes to the regulation of health insurance, imposing various conditions and requirements on the Company. The Healthcare Act may affect the benefit plans the Company sponsors for employees or retirees and their dependents, the Company's expense to provide such benefits, the tax liabilities of the Company in connection

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with the provision of such benefits, the deductibility of certain compensation, and the Company's ability to attract or retain employees. In addition, the Company may be subject to regulations, guidance or determinations emanating from the various regulatory authorities authorized under the Healthcare Act. The Company cannot predict the effect that the

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Healthcare Act, or any regulatory pronouncement made thereunder, will have on its results of operations or financial condition.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Reform Act) was signed into law. The Reform Act makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of the Reform Act are or may become applicable to the Company, its competitors or those entities with which the Company does business, including but not limited to: the establishment of federal regulatory authority over derivatives, the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, changes to the regulation of broker dealers and investment advisors, changes to the regulation of reinsurance, the imposition of additional regulation over credit rating agencies, and the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity. The Reform Act also creates the Consumer Financial Protection Bureau (CFPB), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, other than investment products already regulated by the United States Securities and Exchange Commission (the SEC) or the U.S. Commodity Futures Trading Commission. Certain of the Company's subsidiaries sell products that could be regulated by the CFPB. Numerous provisions of the Reform Act require the adoption of implementing rules and/or regulations. In addition, the Reform Act mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, the Company, its competitors or the entities with which the Company does business. Legislative or regulatory requirements imposed by or promulgated in connection with the Reform Act may place the Company at a competitive disadvantage relative to its competition or other financial services entities, change the competitive landscape of the financial services sector and/or the insurance industry, make it more expensive for the Company to conduct its business or have a material adverse effect on the overall business climate as well as the Company's financial condition and results of operations.

The Company's subsidiaries may also be subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans governed by the Employee Retirement Income Security Act (ERISA). Severe penalties are imposed for breach of duties under ERISA. In addition, the Company may be subject to regulation by governments of the countries in which it currently, or may in the future, do business, as well as regulation by the U.S. Government with respect to its operations in foreign countries, such as the Foreign Corrupt Practices Act.

Certain policies, contracts, and annuities offered by the Company's subsidiaries are subject to regulation under the federal securities laws administered by the SEC. The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions.

Other types of regulation that could affect the Company and its subsidiaries include insurance company investment laws and regulations, state statutory accounting practices, anti-trust laws, minimum solvency requirements, state securities laws, federal privacy laws, insurable interest laws, federal anti-money laundering and anti-terrorism laws, and because the Company owns and operates real property, state, federal, and local environmental laws.

The Company cannot predict what form any future changes to laws and/or regulations affecting participants in the financial services sector and/or insurance industry, including the Company and its competitors or those entities with which it does business, may take, or what effect, if any, such changes may have.

A ratings downgrade or other negative action by a ratings organization could adversely affect the Company.

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Various Nationally Recognized Statistical Rating Organizations (rating organizations) review the financial performance and condition of insurers, including the Company s insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer s ability to meet policyholder and contract holder obligations. While ratings are not a recommendation to buy the Company s securities, these ratings are important to maintaining public confidence in the Company s products, its ability to market its products, and its competitive position. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of the Company s insurance subsidiaries could adversely affect the Company in many ways, including the following: reducing new sales of insurance and investment products; adversely affecting relationships with distributors and sales agents; increasing the number or amount of policy surrenders and withdrawals of funds; requiring a reduction in prices for the Company s insurance products and services in order to remain competitive; and adversely affecting

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the Company's ability to obtain reinsurance at a reasonable price, on reasonable terms or at all. A downgrade of sufficient magnitude could result in the Company, its insurance subsidiaries, or both being required to collateralize reserves, balances or obligations under reinsurance, funding, swap, and securitization agreements. A downgrade of sufficient magnitude could also result in the termination of funding and swap agreements.

Rating organizations also publish credit ratings for the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important to the Company's overall ability to access certain types of liquidity. Downgrades of the Company's credit ratings, or an announced potential downgrade, could have a material adverse affect on the Company's financial conditions and results of operations in many ways, including the following: limiting the Company's access to capital markets; increasing the cost of debt; impairing its ability to raise capital to refinance maturing debt obligations; limiting its capacity to support growth of its insurance subsidiaries; requiring it to pay higher amounts in connection with certain existing or future financing arrangements or transactions; and making it more difficult to maintain or improve the current financial strength ratings of its insurance subsidiaries. A downgrade of sufficient magnitude, in combination with other factors, could require the Company to post collateral pursuant to certain contractual obligations.

Rating organizations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating organization, general economic conditions, and circumstances outside the rated company's control. In addition, rating organizations use various models and formulas to assess the strength of a rated company, and from time to time rating organizations have, in their discretion, altered the models. Changes to the models could impact the rating organizations' judgment of the rating to be assigned to the rated company. The Company cannot predict what actions the rating organizations may take, or what actions the Company may take in response to the actions of the rating organizations, which could adversely affect the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended June 30, 2010, the Company issued no securities in transactions which were not registered under the Securities Act of 1933, as amended (the Act).

Issuer Purchases of Equity Securities

On May 10, 2010, the Company's Board of Directors extended the Company's previously authorized \$100 million share repurchase program. The current authorization extends through May 9, 2013. Future activity will be dependent upon many factors, including capital levels, rating agency expectations, and the relative attractiveness of alternative uses for capital. There were no shares repurchased during the six months ended June 30, 2010. The remaining capacity, expressed in aggregate value of shares, which may be repurchased under the existing program, is approximately \$82.9 million.

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Item 6. Exhibits

- Exhibit 10(a) - Reimbursement Agreement dated as of April 23, 2010 between Golden Gate III Vermont Captive Insurance Company and UBS AG, Stamford Branch.*
- Exhibit 10(b) - Guarantee Agreement dated as of April 23, 2010 between Protective Life Corporation and UBS AG, Stamford Branch.
- Exhibit 10(c) Form of Protective Life Corporation Director Indemnity Agreement
- Exhibit 31(a) - Certification Pursuant to §302 of the Sarbanes Oxley Act of 2002.
- Exhibit 31(b) - Certification Pursuant to §302 of the Sarbanes Oxley Act of 2002.
- Exhibit 32(a) - Certification Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- Exhibit 32(b) - Certification Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- Exhibit 101 - Financial statements from the quarterly report on Form 10-Q of Protective Life Corporation for the quarter ended June 30, 2010, filed on August 5, 2010, formatted in XBRL: (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Balance Sheets, (iii) the Consolidated Condensed Statements of Shareowners Equity, (iv) the Consolidated Condensed Statement of Cash Flows, and (v) the Notes to Consolidated Condensed Financial Statements tagged as blocks of text

* Certain portions of this Exhibit have been omitted pursuant to a request for confidential treatment. The non-public information has been filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROTECTIVE LIFE CORPORATION

Date: August 5, 2010

By:

/s/ Steven G. Walker

Steven G. Walker
Senior Vice President, Controller
and Chief Accounting Officer