PROTECTIVE LIFE CORP
Form 10-Q
August 09, 2007

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, 2007**

or

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

For the transition period from ________ to _______

Commission File Number **001-11339**

Protective Life Corporation
(Exact name of registrant as specified in its charter)

Delaware	**95-2492236**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2801 Highway 280 South
Birmingham, Alabama 35223
(Address of principal executive offices and zip code)

(205) 268-1000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the

Exchange Act. (Check one):

Large accelerated filer ý Accelerated Filer o Non-accelerated filer o

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

Number of shares of Common Stock, $0.50 par value, outstanding as of August 8, 2007: 70,141,673

PROTECTIVE LIFE CORPORATION
Quarterly Report on Form 10-Q
For Quarter Ended June 30, 2007

INDEX

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Dollars in thousands except per share amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Revenues				
Premiums and policy fees	$ 691,165	$ 506,211	$ 1,348,182	$ 1,013,905
Reinsurance ceded	(422,766)	(307,769)	(793,763)	(588,439)
Net of reinsurance ceded	268,399	198,442	554,419	425,466
Net investment income	410,436	300,734	826,118	599,799
Realized investment gains (losses):				
Derivative financial instruments	76,281	(4,799)	73,990	8,538
All other investments	(66,609)	14,663	(53,315)	19,816
Other income	57,452	53,599	131,244	102,135
Total revenues	745,959	562,639	1,532,456	1,155,754
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2007 - $469,449; 2006 - $290,566 six months: 2007 - $762,347; 2006 - $547,125)	458,949	335,937	926,734	685,545
Amortization of deferred policy acquisition costs and value of businesses acquired	78,036	34,153	154,416	84,184
Other operating expenses, net of reinsurance ceded: (three months: 2007 - $72,368; 2006 - $48,703 six months: 2007 - $137,671; 2006 – $94,994)	107,533	89,863	216,537	172,682
Total benefits and expenses	644,518	459,953	1,297,687	942,411
Income before income tax	101,441	102,686	234,769	213,343
Income tax expense	36,336	35,745	79,081	74,265
Net income	$ 65,105	$ 66,941	$ 155,688	$ 139,078
Net income per share – basic	$ 0.92	$ 0.94	$ 2.19	$ 1.96
Net income per share – diluted	$ 0.91	$ 0.94	$ 2.18	$ 1.95
Cash dividends paid per share	$ 0.225	$ 0.215	$ 0.44	$ 0.41
Average shares outstanding – basic	71,074,976	70,805,802	71,046,489	70,779,151
Average shares outstanding – diluted	71,490,467	71,381,677	71,488,786	71,469,976

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	June 30 2007	December 31 2006
Assets		
Investments:		
Fixed maturities, at fair market value (amortized cost: 2007 - $21,684,591; 2006 - $21,194,871)	$ 21,459,631	$ 21,367,263
Equity securities, at fair market value (cost: 2007 - $65,712; 2006 - $121,823)	68,540	128,695
Mortgage loans	4,119,350	3,880,028
Investment real estate, net of accumulated depreciation (2007 - $253; 2006 - $5,483)	12,067	38,918
Policy loans	819,387	839,502
Other long-term investments	185,958	310,225
Short-term investments	809,957	1,381,073
Total investments	27,474,890	27,945,704
Cash	361,129	69,516
Accrued investment income	284,181	284,529
Accounts and premiums receivable, net of allowance for uncollectible amounts (2007 - $3,686; 2006 - $4,140)	206,857	194,447
Reinsurance receivables	4,881,638	4,618,122
Deferred policy acquisition costs and value of businesses acquired	3,391,650	3,198,735
Goodwill	114,717	100,479
Property and equipment, net of accumulated depreciation (2007 - $107,616; 2006 - $109,718)	43,328	43,796
Other assets	155,102	165,656
Income tax receivable	50,102	116,318
Assets related to separate accounts		
Variable annuity	2,929,160	2,750,129
Variable universal life	344,529	307,863
Total assets	$ 40,237,283	$ 39,795,294
Liabilities		
Policy liabilities and accruals	$ 16,738,012	$ 16,059,930
Stable value product account balances	4,806,721	5,513,464
Annuity account balances	8,786,272	8,958,089
Other policyholders' funds	372,299	328,664
Securities sold under repurchase agreements	312,000	16,949
Other liabilities	1,372,999	1,323,375
Deferred income taxes	312,154	374,486
Non-recourse funding obligations	600,000	425,000
Liabilities related to variable interest entities	400,000	420,395
Long-term debt	444,852	479,132
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	2,929,160	2,750,129
Variable universal life	344,529	307,863
Total liabilities	37,943,741	37,482,219
Commitments and contingent liabilities – Note 3		

Share-owners' equity		
Preferred Stock, $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2007 and 2006 -160,000,000 shares issued: 2007 and 2006 – 73,251,960	36,626	36,626
Additional paid-in capital	442,504	438,485
Treasury stock, at cost (2007 – 3,111,232 shares; 2006 – 3,287,312 shares)	(11,181)	(11,796)
Unallocated stock in Employee Stock Ownership Plan (2007 – 259,139 shares; 2006 – 366,243 shares)	(852)	(1,231)
Retained earnings	1,965,577	1,838,560
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2007 - $(60,140) ; 2006 – $22,109)	(108,269)	41,405
Accumulated gain (loss) – hedging, net of income tax: (2007 – (4,348); 2006 - $(3,179)	(7,843)	(5,954)
Postretirement benefits liability adjustment, net of income tax: (2007 - $(12,292); 2006 - $(12,292))	(23,020)	(23,020)
Total share-owners' equity	2,293,542	2,313,075
	$ 40,237,283	$ 39,795,294

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30	
	2007	**2006**
Cash flows from operating activities		
Net income	$ 155,688	$ 139,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses	(20,675)	(28,354)
Amortization of deferred policy acquisition costs and value of businesses acquired	154,416	84,184
Capitalization of deferred policy acquisition costs	(247,015)	(192,892)
Depreciation expense	5,649	6,742
Deferred income tax	47,335	61,393
Accrued income tax	66,403	59,720
Interest credited to universal life and investment products	494,214	379,760
Policy fees assessed on universal life and investment products	(276,383)	(232,124)
Change in reinsurance receivables	(263,516)	(191,522)
Change in accrued investment income and other receivables	(12,062)	(47,968)
Change in policy liabilities and other policyholders' funds of traditional life and health products	166,875	307,262
Trading securities:		
Maturities and principal reductions of investments	202,938	0
Sale of investments	1,043,473	0
Cost of investments acquired	(1,381,788)	0
Other net change in trading securities	59,067	5,329
Change in other liabilities	185,561	44,375
Other, net	(34,610)	11,012
Net cash provided by operating activities	345,570	405,995
Cash flows from investing activities		
Investments available for sale:		
Maturities and principal reductions of investments		
Fixed maturities	719,465	580,437
Equity securities	0	0
Sale of investments		
Fixed maturities	1,373,939	2,496,444
Equity securities	61,141	3,520
Cost of investments acquired		
Fixed maturities	(2,437,415)	(3,096,211)
Equity securities	(1,323)	(3,343)
Mortgage loans:		
New borrowings	(470,517)	(489,928)
Repayments	230,988	238,972
Change in investment real estate, net	33,990	34,368
Change in policy loans, net	20,115	4,600
Change in other long-term investments, net	(686)	19,124
Change in short-term investments, net	484,607	(21,081)
Purchase of property and equipment	(11,238)	(3,053)
Sales of property and equipment	4,094	0

Net cash provided by (used in) investing activities	7,160	(236,151)
Cash flows from financing activities		
Borrowings under line of credit arrangements and long-term debt	69,000	89,000
Principal payments on line of credit arrangement and long-term debt	(103,280)	(82,000)
Net proceeds from securities sold under repurchase agreements	295,051	0
Payments on liabilities related to variable interest entities	(20,395)	(12,113)
Issuance of non-recourse funding obligations	175,000	75,000
Dividends to share owners	(30,817)	(28,647)
Investment product deposits and change in universal life deposits	1,310,001	991,537
Investment product withdrawals	(1,747,821)	(1,229,829)
Excess tax benefits on stock based compensation	1,653	2,668
Other financing activities, net	(9,509)	(23,412)
Net cash used in financing activities	(61,117)	(217,796)
Change in cash	291,613	(47,952)
Cash at beginning of period	69,516	83,670
Cash at end of period	$ 361,129	$ 35,718

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)
(Dollar amounts in tables are in thousands, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and six month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. The year-end consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Accounting Pronouncements Recently Adopted

Statement of Position 05-1. Effective January 1, 2007, the Company adopted Statement of Position ("SOP") 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards ("SFAS") No. 97 ("SFAS 97"), "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments." SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. Contract modifications that result in a substantially unchanged contract will be accounted for as a continuation of the replaced contract. Contract modifications that result in a substantially changed contract should be accounted for as an extinguishment of the replaced contract, and any unamortized DAC, unearned revenue and deferred sales charges must be written off. The Company recorded no cumulative effect adjustment related to this adoption and does not expect it to have a material impact on its ongoing financial position or results of operations.

SFAS No. 155 - Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140. Effective January 1, 2007, the Company adopted SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of Financial Accounting Standards Board ("FASB") Statements No. 133 and 140" ("SFAS 155"). SFAS 155 (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest only (IO) strips and principal only (PO) strips are not subject to the requirements of SFAS 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The adoption of SFAS 155 resulted in a positive cumulative effect adjustment to opening retained earnings of approximately $2.0 million ($1.3 million net of taxes), related to the

Company's equity indexed annuity product line.

FASB Interpretation No. 48. Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition, measurement and disclosure of an income tax position taken or expected to be taken in an income tax return. Additionally, this interpretation requires, in order for the Company to recognize a benefit in its financial statements from a given tax return position, that there must be a greater than 50 percent chance of success with the relevant taxing authority with regard to that tax return position. In making this analysis, the Company must assume that the taxing authority is fully informed of all of the facts regarding this issue. Furthermore, new disclosures regarding the effect of the accounting for uncertain tax positions on the financial statements will be required.

As a result of the implementation of FIN 48, the Company recognized a $0.9 million decrease in the liability for unrecognized income tax benefits, which was accounted for as an increase to the January 1, 2007 retained earnings balance. The Company's liability for all unrecognized income tax benefits as of January 1, 2007 was $23.9 million. If recognized, approximately $3.2 million would be recorded as a component of income tax expense. Using information available as of June 30, 2007, the Company believes it is reasonably possible that in the next 12 months, $1.7 million of unrecognized tax benefits will be recognized due to the expiration of the relevant statute of limitations.

Any accrued interest and penalties related to unrecognized tax benefits have been included in income tax expense. The Company had approximately $5.9 million of accrued interest associated with unrecognized tax benefits as of January 1, 2007.

There were no significant changes to any of the aforementioned amounts during the six months ended June 30, 2007. The Company's 2003 through 2005 income tax returns remain open to examination by the Internal Revenue Service and major state income taxing jurisdictions.

Accounting Pronouncements Not Yet Adopted

SFAS No. 157 - Fair Value Measurements. In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective prospectively with a limited form of retrospective application for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company). The Company is currently evaluating the impact, if any, that SFAS 157 will have on its consolidated results of operations and financial position.

SFAS No. 159 - The Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits entities to choose to measure eligible financial assets and financial liabilities at fair value. SFAS 159 is effective for the Company beginning January 1, 2008. The Company has not yet made a decision as to whether or not it will elect the fair value option for any financial assets or financial liabilities. As a result, the Company does not know what impact, if any, that SFAS 159 will have on its consolidated results of operations and financial position.

Statement of Position 07-1. In June 2007, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") issued Statement of Position ("SOP") 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1"). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide ("AAG"), Audits of Investment Companies. In addition, for such entities, SOP 07-1 provides guidance concerning whether specialized industry accounting principles as set forth in the AAG should be applied by a parent company in consolidation or by an equity method investor in an investment company. SOP 07-1 is effective for the Company beginning January 1, 2008. The Company is currently evaluating the impact, if any, that SOP 07-1 will have on its consolidated results of operations and financial position.

Reclassifications

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior period amounts comparable to those of the current period. Such reclassifications had no effect on previously reported net income or share-owners' equity. Included in these reclassifications is a change in the Consolidated Condensed Statement of Cash Flows to remove the effects of policy fees assessed on universal life and investment products from financing activities. While this had no effect on total cash flow, for the six months ended June 30, 2007, net cash provided by operating activities was decreased and net cash provided by financing activities was increased by $232.1 million.

2. NON-RECOURSE FUNDING OBLIGATIONS

Non-Recourse Funding Obligations

The Company issued $175.0 million of non–recourse funding obligations during the first six months of 2007, bringing the total amount outstanding to $600.0 million at June 30, 2007. These non-recourse funding obligations bear a floating rate of interest and mature in 2037. The weighted average interest rate as of June 30, 2007, was 6.8%.

3. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is contingently liable to obtain a $20 million letter of credit under indemnity agreements with its directors. Such agreements provide insurance protection in excess of the directors' liability insurance in force at the time up to $20 million. Should certain events occur constituting a change in control of the Company, 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.

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 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 and other providers of financial services involving sales practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Increasingly 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 and non-economic compensatory damages which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. The Company, like other financial services companies, in the ordinary course of business, is involved in such litigation and in arbitration. Although the outcome of any such litigation or arbitration cannot be predicted, the Company believes that at the present time there are no pending or threatened lawsuits that are reasonably likely to have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

4. STOCK-BASED COMPENSATION

Performance shares awarded during the first six months of 2007 and 2006, and their estimated fair value at grant date are as follows:

Year Awarded	Performance Shares	Estimated Fair Value	Year Awarded	Performance Shares	Estimated Fair Value
2007	64,700	$2,800	2006	125,430	$6,100

The criteria for payment of 2007 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. If the Company's results are below the median of the comparison group (40th percentile for 2007 awards), 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 Company Common Stock.

During the first quarter of 2007, stock appreciation rights ("SARs") were granted to certain officers of the Company to provide long-term incentive compensation based solely on the performance of the Company's Common Stock. The SARs are exercisable in four equal annual installments beginning one year after the date of grant (earlier upon the death, disability, or retirement of the officer, or in certain circumstances, upon a change in control of the Company) and expire after ten years or upon termination of employment. The SARs activity as well as weighted average base price for the first six months of 2007 is as follows:

	Weighted Average Base Price	No. of SARs
Balance at December 31, 2006	$ 29.33	1,155,946
SARs granted	43.46	218,900
SARs exercised	24.85	(113,142)
Balance at June 30, 2007	$ 32.18	1,261,704

The SARs issued in 2007 had estimated fair values at grant date of $2.4 million. The fair value of the 2007 SARs was estimated using a Black-Scholes option pricing model. The assumptions used in the pricing model varied depending on the vesting period of the awards. Assumptions used in the model for the 2007 SARs were as follows: expected volatility ranged from 16.2% to 31.0%, the risk-free interest rate ranged from 4.5% to 4.6%, a dividend rate of 1.9%, a zero forfeiture rate, and the expected exercise date ranged from 2012 to 2015. The Company will pay an amount in stock equal to the difference between the specified base price of the Company's Common Stock and the market value at the exercise date for each SAR.

Additionally during 2007, the Company issued 30,250 restricted stock units at a fair value of $43.46 per unit. These awards, with a total fair value of $1.3 million, vest over a four year period.

5. DEFINED BENEFIT PENSION PLAN AND UNFUNDED EXCESS BENEFITS PLAN

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

	Three Months Ended June 30		Six months Ended June 30	
	2007	2006	2007	2006
Service cost – Benefits earned during the period	$ 2,016	$ 1,726	$ 4,641	$ 4,302
Interest cost on projected benefit obligations	2,454	2,162	4,994	4,658
Expected return on plan assets	(2,645)	(2,676)	(5,538)	(5,772)
Amortization of prior service cost	53	54	106	118
Amortization of actuarial losses	761	774	1,610	2,046
Net periodic benefit cost	$ 2,639	$ 2,040	$ 5,813	$ 5,352

The Company previously disclosed in its financial statements for the year ended December 31, 2006, that it expected that no funding would be required in 2007. The Company has not yet determined the amount, if any, that it will contribute to its defined benefit pension plan during 2007. As of June 30, 2007, no contributions have been made to the defined benefit pension plan.

In addition to pension benefits, the Company provides limited healthcare benefits and life insurance benefits to eligible retirees. The cost of these plans for the six months ended June 30, 2007 and 2006 was immaterial.

6. EARNINGS PER SHARE

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

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

	Three Months Ended June 30		Six months Ended June 30	
	2007	2006	2007	2006
Calculation of basic earnings per share:				
Net income	$ 65,105	$ 66,941	$ 155,688	$ 139,078
Average shares issued and outstanding	70,030,154	69,804,417	70,013,392	69,798,924
Issuable under various deferred compensation plans	1,044,822	1,001,385	1,033,097	980,227
Weighted shares outstanding - Basic	71,074,976	70,805,802	71,046,489	70,779,151

Basic earnings per share	$	0.92	$	0.94	$	2.19	$	1.96
Calculation of diluted earnings per share:								
Net income	$	65,105	$	66,941	$	155,688	$	139,078
Weighted shares outstanding - Basic		71,074,976		70,805,802		71,046,489		70,779,151
Stock appreciation rights (“SARs”)[(a)]		251,586		290,235		258,050		303,172
Issuable under various other stock-back compensation plans		163,905		285,640		184,247		387,653
Weighted shares outstanding - Diluted		71,490,467		71,381,677		71,488,786		71,469,976
Diluted earnings per share	$	0.91	$	0.94	$	2.18	$	1.95

(a) Excludes 331,450 and 144,100 SARs as of June 30, 2007 and 2006, 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.

7. COMPREHENSIVE INCOME

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

	Three Months Ended June 30				Six Months Ended June 30			
		2007		**2006**		**2007**		**2006**
Net income	$	65,105	$	66,941	$	155,688	$	139,078
Change in net unrealized gains on investments, net of income tax: (three months: 2007 - $(94,717); 2006 - $(57,216) six months: 2007 - $(80,332); 2006 - $(135,519))		(172,728)		(106,632)		(146,496)		(253,903)
Change in accumulated gain-hedging, net of income tax: (three months: 2007 - $(2,162); 2006 - $(725) six months: 2007 - $(947); 2006 - $1,575)		(3,899)		(1,352)		(1,708)		2,951
Minimum pension liability adjustment, net of income tax: (three months: 2007 - $0; 2006 - $(1,144) six months: 2007- $0; 2006 - $(1,144))		0		(2,132)		0		(2,132)
Reclassification adjustment for hedging amounts included in net income, net of tax: (three months: 2007 - $(136); 2006 - $0 six months: 2007 - $(101); 2006 - $0)		(244)		0		(181)		0
Reclassification adjustment for amounts included in net income, net of income tax: (three months: 2007 - $(118); 2006 - $(2,128) six months: 2007 - $(1,743); 2006 - $(779))		(215)		(3,966)		(3,178)		(1,460)
Comprehensive income (loss)	$	(111,981)	$	(47,141)	$	4,125	$	(115,466)

8. OPERATING SEGMENTS

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

- The Life Marketing segment markets level premium term insurance ("traditional"), 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, direct marketing channels, and independent marketing organizations.

- The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment's primary focus is on life insurance policies and annuity products that were sold to individuals.

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

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

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

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

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

There are no significant intersegment transactions.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenues				
Life Marketing	$ 235,205	$ 196,557	$ 505,744	$ 415,482
Acquisitions	227,448	100,505	459,152	201,956
Annuities	77,724	67,478	151,478	131,274
Stable Value Products	70,895	83,060	151,421	160,439
Asset Protection	82,218	70,303	162,241	135,452
Corporate and Other	52,469	44,736	102,420	111,151
Total revenues	$ 745,959	$ 562,639	$ 1,532,456	$ 1,155,754
Segment Operating Income (Loss)				
Life Marketing	$ 37,834	$ 51,225	$ 103,114	$ 92,006
Acquisitions	30,814	18,958	63,063	38,864
Annuities	6,669	6,150	12,275	10,891
Stable Value Products	12,355	11,800	24,541	24,144
Asset Protection	11,522	8,904	21,606	17,642
Corporate and Other	(1,300)	6,848	477	18,511
Total segment operating income (loss)	97,894	103,885	225,076	202,058
Realized investment gains (losses) – investments[(1)]	(71,146)	4,946	(62,198)	4,773
Realized investment gains (losses) – derivatives[(2)]	74,693	(6,145)	71,891	6,512
Income tax expense	(36,336)	(35,745)	(79,081)	(74,265)
Net income	$ 65,105	$ 66,941	$ 155,688	$ 139,078
(1)Realized investment gains (losses) – investments	$ (66,609)	$ 14,663	$ (53,315)	$ 19,816
Less participating income from real estate ventures	3,707	8,168	6,857	13,494
Less related amortization of DAC	830	1,549	2,026	1,549
	$ (71,146)	$ 4,946	$ (62,198)	$ 4,773
(2)Realized investment gains (losses) – derivatives	$ 76,281	$ (4,799)	$ 73,990	$ 8,538
Less settlements on certain interest rate swaps	237	674	494	2,005
Less derivative losses related to certain annuities	1,351	672	1,605	21
	$ 74,693	$ (6,145)	$ 71,891	$ 6,512

Life Marketing operating income for six months ended June 30, 2007 includes a $15.7 million gain on the sale of a subsidiary which is included in other income.

Operating Segment Assets
June 30, 2007

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 8,929,029	$ 11,482,568	$ 7,451,666	$ 4,798,446
Deferred policy acquisition costs and value of businesses acquired	2,009,979	1,021,805	210,038	15,855
Goodwill	10,193	46,406	0	0
Total assets	$ 10,949,201	$ 12,550,779	$ 7,661,704	$ 4,814,301

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 1,449,382	$ 2,591,425	$ 28,400	$ 36,730,916
Deferred policy acquisition costs and value of businesses acquired	125,715	8,258	0	3,391,650
Goodwill	58,035	83	0	114,717
Total assets	$ 1,633,132	$ 2,599,766	$ 28,400	$ 40,237,283

	Operating Segment Assets December 31, 2006			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 8,041,854	$ 10,650,928	$ 8,142,681	$ 5,369,107
Deferred policy acquisition costs and value of businesses acquired	1,846,219	925,218	261,826	16,603
Goodwill	10,354	32,007	0	0
Total assets	$ 9,898,427	$ 11,608,153	$ 8,404,507	$ 5,385,710

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 992,932	$ 3,261,874	$ 36,704	$ 36,496,080
Deferred policy acquisition costs and value of businesses acquired	125,745	23,124	0	3,198,735
Goodwill	58,035	83	0	100,479
Total assets	$ 1,176,712	$ 3,285,081	$ 36,704	$ 39,795,294

9. SUBSEQUENT EVENT

On July 10, 2007, Golden Gate II Captive Insurance Company ("Golden Gate II"), a special purpose financial captive insurance company wholly-owned by Protective Life Insurance Company ("Protective Life"), itself a wholly-owned and consolidated subsidiary of the Company, issued $575 million in aggregate principal amount of floating rate surplus notes due July 15, 2052 (the "Notes"). Golden Gate II has received regulatory approval to issue additional series of its floating rate surplus notes up to an aggregate of $675 million principal amount of surplus notes (including the Notes). The Notes are direct financial obligations of Golden Gate II.

The Notes were issued by Golden Gate II to fund statutory reserves required by the Valuation of Life Insurance Policies Model Regulation (“Regulation XXX”), as clarified by Actuarial Guideline 38 (commonly known as “AXXX”). Golden Gate II has entered into an agreement to reinsure from Protective Life certain universal life insurance policies with secondary guarantees on a combination coinsurance and modified coinsurance basis. Protective Life Corporation ("PLC") has entered into certain support agreements with Golden Gate II obligating PLC to provide support payments to Golden Gate II under certain adverse interest rate conditions and to the extent of any reduction in the reinsurance premiums received by Golden Gate II due to an increase in the premium rates charged to Protective Life under its third-party yearly renewable term reinsurance agreements that reinsure a portion of the mortality risk of the policies that are ceded to Golden Gate II. In addition, PLC has entered into a support agreement with Golden Gate II obligating PLC to pay or make capital contributions to Golden Gate II in respect of certain of Golden Gate II’s expenses and in certain circumstances to collateralize certain of PLC's obligations to Golden Gate II.

The Notes were sold for deposit into certain Delaware trusts (the “Trusts”) that will issue money market securities, term securities resetting to money market securities after a specified period or term securities (the “Securities”). The holders of Notes cannot require repayment from PLC, Protective Life or any of their affiliates, other than Golden Gate II, the direct issuer of the Notes. PLC has agreed, under certain circumstances, to make certain liquidity advances to the Trusts not in excess of specified amounts of assets held in a reinsurance trust of which Protective Life is the beneficiary and Golden Gate II is the grantor in the event that the Trusts do not have sufficient funds available to fully redeem the Securities at the stated maturity date. PLC’s obligation to make any such liquidity advance is subject to it having a first priority security interest in the residual interest in such reinsurance trust and in the Notes.

Golden Gate II will pay interest on the principal amount of the Notes on a monthly basis, subject to regulatory approval. Any payment of principal of, including by redemption, or interest on the Notes may only be made with the prior approval of the Director of Insurance of the State of South Carolina in accordance with the terms of Golden Gate II’s licensing order and in accordance with applicable law. The holders of the Notes have no rights to accelerate payment of principal on the Notes under any circumstances, including without limitation, for nonpayment or breach of any covenant. Golden Gate II reserves the right to repay the Notes at any time, subject to the terms of the Notes and prior regulatory approval.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollar amounts in tables are in thousands)

This Management’s Discussion and Analysis should be read in its entirety, since it contains detailed information that is important to understanding the Company’s results and financial condition. The Overview below is qualified in its entirety by the full Management’s Discussion and Analysis.

FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

This report reviews the Company’s financial condition and results of operations including its liquidity and capital resources. Historical information is presented and discussed. 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,” “shall,” “may,” and other words, phrases, or expressions with s 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 the Company 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.

For a more complete understanding of the Company’s business and its current period results, please read the following Management’s Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the Company’s latest Annual Report on Form 10-K and other filings with the SEC.

OVERVIEW

Protective Life Corporation (the “Company”) is a holding company whose subsidiaries provide financial services through the production, distribution, and administration of insurance and investment products. Founded in 1907, Protective Life Insurance Company is the Company's largest operating subsidiary. Unless the context otherwise requires, the "Company" refers to the consolidated group of Protective Life Corporation and its subsidiaries.

The Company operates several business segments each having a strategic focus. An operating segment is generally distinguished by products and/or channels of distribution. The Company's operating segments are Life Marketing, Acquisitions, Annuities, Stable Value Products, and Asset Protection. The Company has an additional segment referred to as Corporate and Other which consists of net investment income on unallocated capital, interest on debt, earnings from various investment-related transactions, and the operations of several non-strategic lines of business. The Company periodically evaluates its operating segments in light of the segment reporting requirements prescribed by SFAS 131, “Disclosures about Segments of an Enterprise and Related Information,” and makes adjustments to its segment reporting as needed.

KNOWN TRENDS AND UNCERTAINTIES

The factors which could affect the Company's future results include, but are not limited to, general economic conditions and the following known trends and uncertainties: we are exposed to the risks of natural disasters, pandemics, malicious and terrorist acts that could adversely affect our operations; 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; a ratings downgrade could adversely affect our ability to compete; our policy claims fluctuate from period to period resulting in earnings volatility; our results may be negatively affected should actual experience differ from management's assumptions and estimates; the use of reinsurance introduces variability in our statements of income; we could be forced to sell investments at a loss to cover policyholder withdrawals; interest rate fluctuations could negatively affect our spread income or otherwise impact our business; equity market volatility could negatively impact our business; 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 the Company and its 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; our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business; our investments are subject to market and credit risks; we may not realize our anticipated financial results from our acquisitions strategy; we may not be able to achieve the expected results from our recent acquisition; we are dependent on the performance of others; our reinsurers could fail to meet assumed obligations, increase rates or be subject to adverse developments that could affect us; computer viruses or network security breaches 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; our ability to grow depends in large part upon the continued availability of capital; new accounting rules or changes to existing accounting rules could negatively impact us; and our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our business or result in losses. Please refer to Exhibit 99 about these factors that could affect future results.

The Company’s results may fluctuate from period to period due to fluctuations in mortality, persistency, claims, expenses, interest rates, and other factors. Therefore, it is management's opinion that quarterly operating results for an insurance company are not necessarily indicative of results to be achieved in future periods, and that a review of operating results over a longer period is necessary to assess an insurance company's performance.

RESULTS OF OPERATIONS

In the following discussion, segment operating income is defined as income before income tax, excluding net realized investment gains and losses (net of the related amortization of deferred policy acquisition costs (“DAC”) and value of business acquired (“VOBA”) and participating income from real estate ventures). 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 because the derivatives are used to mitigate risk in items affecting segment operating income. Management believes that segment operating income provides relevant and useful information to investors, as it represents the basis on which the performance of the Company’s business is internally assessed. Although the items excluded from segment operating income may be significant components in understanding and assessing the Company’s overall financial performance, management believes that segment operating income enhances an investor’s understanding of the Company’s results of operations by highlighting the income (loss) attributable to the normal, recurring operations of the Company’s business. However, segment operating income should not be viewed as a substitute for U.S. GAAP net income. In addition, the Company’s segment operating income measures may not be comparable to similarly titled measures reported by other companies.

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

	Three Months Ended June 30			Six Months Ended June 30		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**

	(Dollars in thousands)			(Dollars in thousands)		
Segment Operating Income (Loss)						
Life Marketing	$ 37,834	$ 51,225	(26.1)%	$ 103,114	$ 92,006	12.1%
Acquisitions	30,814	18,958	62.5	63,063	38,864	62.3
Annuities	6,669	6,150	8.4	12,275	10,891	12.7
Stable Value Products	12,355	11,800	4.7	24,541	24,144	1.6
Asset Protection	11,522	8,904	29.4	21,606	17,642	22.5
Corporate and Other	(1,300)	6,848	(119.0)	477	18,511	(97.4)
Total segment operating income (loss)	97,894	103,885	(5.8)%	225,076	202,058	11.4
Realized investment gains (losses) – investments(1)	(71,146)	4,946		(62,198)	4,773	
Realized investment gains (losses) – derivatives(2)	74,693	(6,145)		71,891	6,512	
Income tax expense	(36,336)	(35,745)		(79,081)	(74,265)	
Net income	$ 65,105	$ 66,941	(2.7)	$ 155,688	$ 139,078	11.9
(1) Realized investment gains (losses) – investments	$ (66,609)	$ 14,663		$ (53,315)	$ 19,816	
Less participating income from real estate ventures	3,707	8,168		6,857	13,494	
Less related amortization of DAC	830	1,549		2,026	1,549	
	$ (71,146)	$ 4,946		$ (62,198)	$ 4,773	
(2) Realized investment gains (losses) – derivatives	$ 76,281	$ (4,799)		$ 73,990	$ 8,538	
Less settlements on certain interest rate swaps	237	674		494	2,005	
Less derivative gains related to certain annuities	1,351	672		1,605	21	
	$ 74,693	$ (6,145)		$ 71,891	$ 6,512	

Net income for the first six months of 2007 reflects an 11.4% increase in segment operating income compared to the same period of 2006. The two largest items contributing to this increase include a $15.7 million gain on the sale of the Life Marketing segment's direct marketing subsidiary and a $24.2 million increase in operating earnings in the Acquisitions segment resulting primarily from the prior year acquisition of the Chase Insurance Group. These two favorable items were partially offset by a year-to-date decline in operating earnings for the Corporate & Other segment of $18.0 million resulting primarily from higher interest expense. Net realized investment gains were $9.7 million for the first six months of 2007 compared to $11.3 million for the same period of 2006, a decrease of $1.6 million.

Life Marketing segment operating income was $37.8 million and $103.1 million for the current quarter and year-to-date, respectively, representing a quarterly decrease of 26.1% and a year-to-date increase of 12.1% over the same periods of the prior year. This second quarter decrease was primarily due to $14.1 million of favorable DAC unlocking that occurred in the second quarter of 2006. The year-to-date increase was primarily due to a $15.7 million gain before taxes on the sale of the segment's direct marketing subsidiary and favorable mortality in 2007 compared to 2006. The increases in the Acquisitions segment's operating income for the current quarter and year-to-date are due to the acquisition of the Chase Insurance Group completed in the third quarter of 2006. This acquisition contributed $27.6 million to the Acquisition segment's operating income for the first six months of 2007.

Favorable results in the market value adjusted annuity line, partially offset by unfavorable mortality results in the single premium immediate annuity line, resulted in a 12.7% increase in operating income for the Annuities segment for the first six months of 2007. A general improvement in the equity markets and increasing account balances contributed to the increase in operating earnings during the first six months of 2007 for the segment. Declines in average account values offset by increases in operating spreads resulted in slightly higher operating income for the second quarter and first six months of 2007 in the Stable Value Products segment compared to the same periods of 2006.

The Asset Protection segment's operating income increases of 29.4% and 22.5% for the second quarter and first six months of 2007, respectively, were primarily the result of improvements in the segment's service contract line, which were up $3.4 million for the quarter and $5.7 million year-to-date. Favorable results from the service contract line were partially offset by unfavorable results from other product lines and lines the segment is no longer marketing.

The declines in operating income for the Corporate and Other segment are primarily the result of increases in interest expense resulting from increased borrowings, partially offset by higher net investment income. The increase in interest expense is primarily due to the issuance of $200 million of subordinated debt securities to finance the Chase Insurance Group acquisition in the third quarter of 2006 and the issuance of non-recourse funding obligations to support the Company's Regulation XXX redundant reserves.

RESULTS BY BUSINESS SEGMENT

In the following segment discussions, various statistics and other key data the Company uses to evaluate its segments are presented. Sales statistics are used by the Company to measure the relative progress in its marketing efforts, but may or may not have an immediate impact on reported segment operating income. Sales data for traditional life insurance are based on annualized premiums, while universal life sales are based on annualized planned (target) premiums plus 6% of amounts received in excess of target premiums. Sales of annuities are measured based on the amount of deposits received. Stable value contract sales are measured at the time that the funding commitment is made based on the amount of deposit to be received. Sales within the Asset Protection segment are generally based on the amount of single premium and fees received.

Sales and life insurance in-force amounts are derived from the Company's various sales tracking and administrative systems, and are not derived from the Company's financial reporting systems or financial statements. Mortality variances are derived from actual claims compared to expected claims. These variances do not represent the net impact to earnings due to the interplay of reserves and DAC amortization.

Life Marketing

The Life Marketing segment markets level premium term insurance ("traditional life"), 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. Segment results were as follows:

	Three Months Ended June 30			Six Months Ended June 30		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
REVENUES						

Gross premiums and policy fees	$	361,624	$	325,496	11.1%	$	707,309	$	650,860	8.7%
Reinsurance ceded		(239,702)		(237,148)	1.1		(447,316)		(445,779)	0.3
Net premiums and policy fees		121,922		88,348	38.0		259,993		205,081	26.8
Net investment income		82,291		75,474	9.0		163,394		148,327	10.2
Other income		30,992		32,735	(5.3)		82,357		62,074	32.7
Total operating revenues		235,205		196,557	19.7		505,744		415,482	21.7
BENEFITS AND EXPENSES										
Benefits and settlement expenses		152,147		122,432	24.3		301,476		258,331	16.7
Amortization of deferred policy acquisition costs		25,564		1,636	1462.6		54,262		21,102	157.1
Other operating expenses		19,660		21,264	(7.5)		46,892		44,043	6.5
Total benefits and expenses		197,371		145,332	35.8		402,630		323,476	24.5
OPERATING INCOME		37,834		51,225	(26.1)		103,114		92,006	12.1
INCOME BEFORE INCOME TAX	$	37,834	$	51,225	(26.1)	$	103,114	$	92,006	12.1

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

	Three Months Ended June 30					Six Months Ended June 30				
	2007		2006		Change	2007		2006		Change
	(Dollars in thousands)					(Dollars in thousands)				
Sales By Product										
Traditional	$	43,955	$	35,733	23.0%	$	77,447	$	73,209	5.8%
Universal life		18,515		16,109	14.9		32,712		47,597	(31.3)
Variable universal life		2,181		1,628	34.0		4,009		2,913	37.6
	$	64,651	$	53,470	20.9	$	114,168	$	123,719	(7.7)
Sales By Distribution Channel										
Brokerage general agents	$	41,210	$	32,644	26.2	$	71,089	$	70,823	0.4
Independent agents		10,629		9,216	15.3		18,957		23,016	(17.6)
Stockbrokers/banks		9,452		8,082	17.0		17,945		21,649	(17.1)
BOLI / other		3,360		3,528	(4.8)		6,177		8,231	(25.0)
	$	64,651	$	53,470	20.9	$	114,168	$	123,719	(7.7)
Average Life Insurance In-Force(1)										
Traditional	$	425,847,790	$	374,705,974	13.6	$	418,070,072	$	368,990,677	13.3
Universal life		51,028,227		50,337,452	1.4		51,135,756		49,726,677	2.8

	$ 476,876,017	$ 425,043,426	12.2	$ 469,205,828	$ 418,717,354	12.1
Average Account Values						
Universal life	$ 4,927,779	$ 4,746,318	3.8	$ 4,904,775	$ 4,677,818	4.9
Variable universal life	332,251	272,397	22.0	324,121	265,374	22.1
	$ 5,260,030	$ 5,018,715	4.8	$ 5,228,896	$ 4,943,192	5.8
Mortality Experience (2)	$ 1,188	$ (392)		$ 8,951	$ (40)	

(1) Amounts are not adjusted for reinsurance ceded.
(2) Represents a favorable (unfavorable) variance as compared to pricing assumptions. Excludes results related to Chase Insurance Group which was acquired in the third quarter of 2006.

During 2005, the Company reduced its reliance on reinsurance (see additional comments below) and entered into a securitization structure to fund the additional statutory reserves required as a result of these changes in the Company's reinsurance arrangements. The securitization structure results in a reduction of current taxes and a corresponding increase in deferred taxes as compared to the previous result obtained in using traditional reinsurance. The benefit of reduced current taxes is attributed to the applicable life products and is an important component of the profitability of these products. In addition to the fluctuations in premiums and benefits and settlement expenses discussed below, earnings emerge more slowly under a securitization structure relative to the previous reinsurance structure utilized by the Company.

Operating income declined 26.1% and increased 12.1% from the second quarter and first six months of 2006, respectively. The second quarter decline is primarily due to $14.1 million favorable DAC unlocking that occurred in the second quarter of 2006, while the year-to-date increase is primarily the result of a gain recognized during the first quarter of 2007 on the sale of the segment's direct marketing subsidiary combined with favorable mortality results. Excluding the $15.7 million gain on the sale of a subsidiary which is included in other income, total revenues increased 17.9% on a year-to-date basis compared to the same period of 2006. These increases are the result of growth of life insurance in-force and average account values, and are partially offset by higher overall benefits and expenses (24.3% and 16.7% higher for the second quarter and first six months of 2007, respectively, as compared to the same periods of 2006).

Net premiums and policy fees grew by 38.0% in the current quarter and by 26.8% year-to-date due in part to the growth in life insurance in-force achieved over the last several quarters combined with an increase in retention levels on certain traditional life products. Beginning in the second quarter of 2005, the Company reduced its reliance on reinsurance by changing from coinsurance to yearly renewable term reinsurance agreements and increased the maximum amount retained on any one life from $500,000 to $1,000,000 on certain of its newly written traditional life products (products written during the second quarter of 2005 and later.) In addition to increasing net premiums, this change results in higher benefits and settlement expenses, and causes greater variability in financial results due to fluctuations in mortality results. The Company's maximum retention level for newly issued universal life products is $1,000,000.

Net investment income in the segment increased 9.0% for the quarter and 10.2% year-to-date, reflecting the growth of the segment's assets caused by the increase in life reserves. Other income increased 32.7% for the first six months of 2007, primarily due to a $15.7 million gain recognized on the sale of the segment's direct marketing subsidiary. The remainder of the year-to-date increase in other income is due to additional income from the segment's broker-dealer subsidiary resulting from increased fees related to variable annuity managed accounts and higher investment advisory fees.

Benefits and settlement expenses were 24.3% and 16.7% higher than the second quarter and first six months of 2006, respectively, due to growth in 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 year-to-date by favorable fluctuations in mortality experience. The gross mortality variance (actual results compared to pricing) for the second quarter and first six months of 2007 was $0.8 million and $9.0 million more favorable, respectively, than the same periods of 2006. The estimated mortality impact on earnings for the second quarter and first six months of 2007 was an unfavorable $1.6 million and a favorable $5.8 million, respectively, which was approximately $0.4 million less favorable and $7.5 million more favorable, respectively, than estimated mortality impact on earnings for the same periods of 2006.

The increase in DAC amortization for the second quarter of 2007 compared to the prior year was primarily due to favorable DAC unlocking during the second quarter of 2006. An evaluation of DAC, including a review of the underlying assumptions of future mortality, expenses, lapses, premium persistency, investment yields, and interest spreads was performed by the Company on its West Coast Life UL product during the second quarter of 2006. As a result of this review, assumptions were updated based on actual experience and/or expectations for the future. This change in assumptions, and resulting adjustment to DAC, referred to as “unlocking”, resulted in a favorable adjustment of approximately $14.1 million during the second quarter of 2006. The year-to-date increase in DAC amortization compared to the same period of 2006 was primarily due to the 2006 DAC unlocking discussed above, combined with the increase in the Company’s block of term business not subject to reinsurance and overall growth in average life insurance in-force.

Other operating expenses for the segment were as follows:

	Three Months Ended June 30			**Six Months Ended June 30**		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
Insurance Companies:						
First year commissions	$ 79,607	$ 76,429	4.2%	$ 150,013	$ 170,696	(12.1)%
Renewal commissions	10,459	8,973	16.6	20,020	17,377	15.2
First year ceding allowances	(14,091)	(28,033)	(49.7)	(30,006)	(60,865)	(50.7)
Renewal ceding allowances	(59,921)	(55,129)	8.7	(114,512)	(101,460)	12.9
General & administrative	47,106	40,500	16.3	91,300	83,763	9.0
Taxes, licenses and fees	8,872	7,365	20.5	17,732	15,437	14.9
Other operating expenses incurred	72,032	50,105	43.8	134,547	124,948	7.7
Less commissions, allowances & expenses capitalized	(82,023)	(62,948)	30.3	(152,154)	(144,590)	5.2
Other operating expenses	(9,991)	(12,843)	(22.2)	(17,607)	(19,642)	(10.4)
Marketing Companies:						
Commissions	23,229	20,515	13.2	46,110	38,069	21.1
Other	6,422	13,592	(52.8)	18,389	25,616	(28.2)
Other operating expenses	29,651	34,107	(13.1)	64,499	63,685	1.3
Other operating expenses	$ 19,660	$ 21,264	(7.5)%	$ 46,892	$ 44,043	6.5%

The Company utilizes reinsurance for most of its products, with the terms of the reinsurance agreed upon before products are made available for sale. The Company determines its pricing, and analyzes its financial performance, on a net of reinsurance basis with the objective of achieving an attractive return on investment for its shareholders. Generally, the Company's profits emerge as a level percentage of premiums for Statement of Financial Accounting Standards No. 60 ("SFAS 60") products and as a level percentage of estimated gross profits for Statement of Financial Accounting Standards No. 97 ("SFAS 97") products. Under both SFAS 60 and 97, the amount of earnings and investment will vary with the utilization of reinsurance. In addition, the utilization of reinsurance can cause fluctuations in individual income and expense line items from year to year. Consideration of all components of the segment's income statement, including amortization of deferred acquisition costs ("DAC"), is required to assess the impact of reinsurance on segment operating income.

Reinsurance allowances represent the amount the reinsurer is willing to pay for reimbursement of acquisition and other costs incurred by the direct writer of the business. The amount and timing of these allowances are negotiated by the Company and each reinsurer. The Company receives allowances according to the prescribed schedules in the reinsurance contracts, which may or may not bear a relationship to actual operating expenses incurred by the Company. First year commissions paid by the Company may be higher than first year allowances paid by the reinsurer, and reinsurance allowances may be higher in later years than renewal commissions paid by the Company. However, the pattern of reinsurance allowances does not impact the pattern of earnings from year to year. While the recognition of reinsurance allowances is consistent with U.S. GAAP, non-deferred allowances often exceed the segment's non-deferred direct costs, causing net other operating expenses to be negative. However, consistent with SFAS 60 and SFAS 97, fluctuations in non-deferred allowances tend to be offset by changes in DAC amortization with the resulting profits emerging as a level percentage of premiums for SFAS 60 products and as a level percentage of estimated gross profits for SFAS 97 products.

Reinsurance allowances tend to be highest in the first year of a policy and subsequently decline. Ultimate reinsurance allowances are defined as the level of allowances at the end of a policy's term. The Company's practice is to defer as a component of DAC, reinsurance allowances in excess of the ultimate allowance. This practice is consistent with the Company's practice of deferring direct commissions.

The following table summarizes reinsurance allowances for each period presented, including the portion deferred as a part of DAC and the portion recognized immediately as a reduction of other operating expenses. As the non-deferred portion of reinsurance allowances reduce operating expenses in the period received, these amounts represent a net increase to operating income during that period. The amounts capitalized and earned are quantified below:

	Three Months Ended June 30			Six Months Ended June 30		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
Allowances received	$ 74,012	$ 83,162	(11.0)%	$ 144,518	$ 162,325	(11.0)%
Less amount deferred	(39,310)	(48,605)	(19.1)	(77,890)	(96,862)	(19.6)
Allowances recognized (reduction in other operating expenses)	$ 34,702	$ 34,557	0.4%	$ 66,628	$ 65,463	1.8

Non-deferred reinsurance allowances of $34.7 million and $34.6 million were recognized in the second quarters of 2007 and 2006, respectively, resulting in reductions in operating expenses by these amounts in the same periods. Non-deferred reinsurance allowances increased 0.4% and 1.8% in the second quarter and first six months of 2007 compared to the same periods of 2006, primarily as the result of increases in the Company's life insurance in-force.

Reinsurance allowances do not affect the methodology used to amortize DAC or the period over which such DAC is amortized. However, they do affect the amounts recognized as DAC amortization. DAC on SFAS 97 products is amortized based on the estimated gross profits of the policies in force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore impact SFAS 97 DAC amortization. Deferred reinsurance allowances on SFAS 60 policies are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in force. Thus, deferred reinsurance allowances on SFAS 60 policies impact SFAS 60 DAC amortization.

The amounts of ceded premium paid by the Company and allowances reimbursed by the reinsurer are reflected in the table below:

	Three Months Ended June 30			Six Months Ended June 30		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
Ceded premiums	$ 239,702	$ 237,148	1.1%	$ 447,316	$ 445,779	0.3%
Allowances received	74,012	83,162	(11.0)	144,518	162,325	(11.0)
Net ceded premiums	$ 165,690	$ 153,986	7.6%	$ 302,798	$ 283,454	6.8%

The net ceded premium increased 7.6% and 6.8% in the second quarter and first six months of 2007 compared to the same periods of the prior year, primarily due to decreases in allowances received. The Company's move during 2005 to reduce its reliance on reinsurance by entering into a securitization structure to fund certain statutory reserves will ultimately result in a reduction in both ceded premiums and reinsurance allowances received. As reinsurance allowances tend to be highest in the first year of a policy and subsequently decline, for a period of time, the decrease in allowances received will outpace the decrease in ceded premiums, resulting in an increase in net ceded premiums.

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

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

Other operating expenses for the insurance companies increased in both the second quarter and first six months of 2007 compared to the prior year. The first quarter of 2006 included a $2.1 million true-up of field compensation expenses related to sales in prior periods that increased expense in the prior year period. Excluding the prior year true-up, other operating expenses increased 11.8% for the insurance companies in the first six months of 2007 compared to the same period of the prior year, as a result of higher incurred non-deferrable expenses. Amounts capitalized as DAC generally include first year commissions, reinsurance allowances, and other deferrable acquisition expenses. The changes in these amounts generally reflect the trends in sales. Other operating expenses for the segment's marketing companies for the first six months of 2007 are relatively unchanged compared to the prior year.

Sales for the segment declined 7.7% in the first six months of 2007 versus 2006, primarily due to a 31.3% decline in UL sales. This decline in UL sales is the expected result of pricing adjustments on certain UL products in response to the higher reserve levels required under Actuarial Guideline 38 ("AG38"). See additional discussion of AG38 and its impact on certain UL products in the "Recent Developments" section herein. Traditional life sales increased 5.8% in the first six months of 2007 compared to the prior year. There has been intense competition in the market for these products during the past several quarters. The Company continually reviews its product features and pricing in an effort to maintain or improve its competitive position. Sales of BOLI business have declined in 2007 compared to the prior year. BOLI sales can vary widely between periods as the segment responds to opportunities for these products only when required returns can be achieved.

The Company has reduced its reliance on reinsurance for newly written traditional life products by moving towards a securitization structure under which profitability is not expected to emerge immediately after the business is written. In addition, older, more profitable traditional life policies continue to run off in the ordinary course. These two factors combined with financing costs in connection with the securitization structure and the Company's pricing actions to remain competitive in the market are expected to put pressure on the profitability of this segment.

Acquisitions

The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment's primary focus is on life insurance policies sold to individuals. Segment results were as follows:

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
	(Dollars in thousands)			(Dollars in thousands)		
REVENUES						
Gross premiums and policy fees	$ 214,464	$ 63,203	239.3%	$ 408,946	$ 126,189	224.1%
Reinsurance ceded	(137,370)	(16,617)	726.7	(255,612)	(33,259)	668.5
Net premiums and policy fees	77,094	46,586	65.5	153,334	92,930	65.0
Net investment income	145,263	53,626	170.9	294,249	108,116	172.2
Other income	2,525	293	761.8	4,773	910	424.5
Total operating revenues	224,882	100,505	123.8	452,356	201,956	124.0
Realized gains (losses) – investments	(69,216)	0		(61,283)	0	
Realized gains (losses) – derivatives	71,782	0		68,079	0	
Total revenues	227,448	100,505	126.3%	459,152	201,956	127.4%
BENEFITS AND EXPENSES						
Benefits and settlement expenses	158,284	66,984	136.3	320,188	134,438	138.2
Amortization of deferred policy acquisition costs and value of businesses acquired	19,200	6,809	182.0	39,148	13,144	197.8
Other operating expenses	16,584	7,754	113.9	29,957	15,510	93.1
Operating benefits and expenses	194,068	81,547	138.0	389,293	163,092	138.7

Amortization of DAC/VOBA related to realized gains (losses) - investments	777	0		1,383	0	
Total benefits and expenses	194,845	81,547		390,676	163,092	
INCOME BEFORE INCOME TAX	32,603	18,958	72.0	68,476	38,864	76.2
Less realized gains (losses)	2,566	0		6,796	0	
Less related amortization of DAC	(777)	0		(1,383)	0	
OPERATING INCOME	$ 30,814	$ 18,958	62.5	$ 63,063	$ 38,864	62.3

The following table summarizes key data for the Acquisitions segment:

	Three Months Ended June 30			**Six Months Ended June 30**		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
Average Life Insurance In-Force(1)						
Traditional	$ 227,101,220	$ 9,949,178	2182.6%	$ 228,343,004	$ 10,056,356	2170.6%
Universal life	32,052,947	16,192,682	97.9	32,258,739	16,325,474	97.6
	$ 259,154,167	$ 26,141,860	891.3	$ 260,601,743	$ 26,381,830	887.8
Average Account Values						
Universal life	$ 3,001,495	$ 1,681,697	78.5	$ 3,014,433	$ 1,685,399	78.9
Fixed annuity(2)	5,354,811	206,279	2495.9	5,401,199	207,620	2501.5
Variable annuity	199,898	61,455	225.3	197,513	63,192	212.6
	$ 8,556,204	$ 1,949,431	338.9	$ 8,613,145	$ 1,956,211	340.3
Interest Spread – UL & Fixed Annuities						
Net investment income yield	6.19%	6.79%		6.27%	6.83%	
Interest credited to policyholders	4.07	5.05		4.10	5.07	
Interest spread	2.12%	1.74%		2.17%	1.76%	
Mortality Experience(3)	$ 1,586	$ 2,662		$ 2,360	$ 2,929	

(1) Amounts are not adjusted for reinsurance ceded.
(2) Includes general account balances held within variable annuity products.
(3) Represents a favorable variance as compared to pricing assumptions. Excludes results related to Chase Insurance Group which was acquired in the third quarter of 2006.

In the ordinary course of business, the Acquisitions segment regularly considers acquisitions of blocks of policies or smaller 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 typically "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 Company completed its acquisition of the Chase Insurance Group during the third quarter of 2006. This acquisition drove the increases in revenues, expenses, and earnings of the segment for the second quarter of 2007 and first six months of 2007, as compared to the prior year periods. This acquisition also drove the large increases in the segment's life insurance in-force and UL and annuity account values compared to the prior year period.

Net premiums and policy fees increased 65.5% and 65.0% for the second quarter and first six months of 2007, respectively, compared to the same periods of the prior year, as a result of the Chase Insurance Group acquisition which contributed $32.5 million and $63.4 million to net premiums and policy fees during the second quarter and first six months of 2007, respectively. The increases in net investment income in 2007 compared to 2006 are due to the increase in assets resulting from the 2006 acquisition. The segment continues to review credited rates on UL and annuity business for all blocks of business to minimize the impact of lower earned rates on interest spreads.

Benefits and settlement expenses increased 136.3% and 138.2% for the second quarter and first six months of 2007, respectively, compared to the same periods of the prior year, due to the 2006 Chase Insurance Group acquisition, which contributed $92.0 million and $188.6 million to benefits and settlement expenses during the second quarter and first six months of 2007, respectively. The Chase Insurance Group acquisition resulted in an additional $28.3 million of VOBA amortization for the first six months of 2007, driving the year-to-date increase of 197.8%. The increases in other operating expenses are primarily due to higher commissions resulting from higher net premiums, and operating expenses associated with the Chase Insurance Group acquisition.

Annuities

The Annuities segment manufactures, sells, and supports fixed and variable annuity products. These products are primarily sold through broker-dealers, but are also sold through financial institutions and independent agents and brokers. Segment results were as follows:

	Three Months Ended june 30			Six Months Ended june 30		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
REVENUES						
Gross premiums and policy fees	$ 8,633	$ 8,000	7.9%	$ 16,895	$ 16,144	4.7%
Reinsurance ceded	0	0	0.0	0	0	0.0
Net premiums and policy fees	8,633	8,000	7.9	16,895	16,144	4.7
Net investment income	64,890	54,865	18.3	125,751	108,359	16.1
Realized gains (losses) – derivatives	1,351	672		1,605	21	
Other income	2,797	2,343	19.4	5,510	5,242	5.1
Operating revenues	77,671	65,880	17.9	149,761	129,766	15.4
Realized gains (losses) – Investments	53	1,598		1,717	1,508	
Total revenues	77,724	67,478		151,478	131,274	
BENEFITS AND EXPENSES						

Benefits and settlement expenses	56,101	46,883	19.7	112,050	94,196	19.0
Amortization of deferred policy acquisition costs	9,856	5,834	68.9	14,394	10,960	31.3
Other operating expenses	5,045	7,013	(28.1)	11,042	13,719	(19.5)
Operating benefits and expenses	71,002	59,730	18.9	137,486	118,875	15.7
Amortization of DAC related to realized gains (losses) – investment	53	1,549		643	1,549	
Total benefits and expenses	71,055	61,279		138,129	120,424	
INCOME BEFORE INCOME TAX	6,669	6,199	7.6	13,349	10,850	23.0
Less realized gains (losses) – investments	53	1,598		1,717	1,508	
Less related amortization of DAC	(53)	(1,549)		(643)	(1,549)	
OPERATING INCOME	$ 6,669	$ 6,150	8.4	$ 12,275	$ 10,891	12.7

The following table summarizes key data for the Annuities segment:

	Three Months Ended June 30			**Six Months Ended June 30**		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
Sales						
Fixed annuity	$ 305,554	$ 136,579	123.7%	$ 541,745	$ 228,669	136.9%
Variable annuity	123,263	81,206	51.8	202,245	154,937	30.5
	$ 428,817	$ 217,785	96.9	$ 743,990	$ 383,606	93.9
Average Account Values						
Fixed annuity(1)	$ 4,249,579	$ 3,449,328	23.2	$ 4,142,530	$ 3,436,125	20.6
Variable annuity	2,704,860	2,372,486	14.0	2,642,535	2,365,692	11.7
	$ 6,954,439	$ 5,821,814	19.5	$ 6,785,065	$ 5,801,817	16.9
Interest Spread – Fixed Annuities(2)						
Net investment income yield	6.01%	6.25%		5.97%	6.20%	
Interest credited to policyholders	5.27	5.35		5.25	5.37	
Interest spread	0.74%	0.90%		0.72%	0.83%	

	As of June 30		
	2007	**2006**	**Change**
GMDB – Net amount at risk(3)	$ 81,748	$ 134,432	(39.2)
GMDB – Reserves	3,308	2,408	37.4

S&P 500® Index	1,503	1,270	18.3

(1) Includes general account balances held within variable annuity products.
(2) Interest spread on average general account values.
(3) Guaranteed death benefit in excess of contract holder account balance.

Segment operating income increased approximately $.5 million for the second quarter of 2007 compared to the same period of 2006, while year-to-date operating income increased $1.4 million, or 12.7%. The year-to-date improvement is primarily due to favorable results in the market value adjusted annuity line following a favorable DAC unlocking adjustment, and is partially offset by a decrease in operating income in the single premium immediate annuity line, resulting from unfavorable mortality results. Operating income was also favorably impacted for the first six months of 2007 compared to the same period of the prior year by improvement in the equity markets and increasing account values, offset by a tightening of spreads.

Segment operating revenues increased 17.9% and 15.4% in the second quarter and first six months of 2007 compared to the same periods of 2006 primarily due to increases in net investment income. Average account balances grew 19.5% and 16.9% for the second quarter and first six months of 2007, respectively, resulting in higher investment income. The additional income resulting from the larger account balances was partially reduced in 2007 by a year-to-date 11 basis point decline in interest spreads, resulting from a rebalancing of the investment portfolio during the fourth quarter of 2006. The segment continually monitors and adjusts credited rates as appropriate in an effort to maintain or improve its interest spread.

Total benefits and expenses increased 18.9% and 15.7% for the second quarter and first six months of 2007, respectively, compared to the same periods of the prior year. These increases are primarily the result of higher credited interest and unfavorable mortality fluctuations, partially offset by reductions in DAC amortization resulting from favorable unlocking. The increases in credited interest are the result of the increase in average account values. Mortality was unfavorable by $2.7 million for the second quarter of 2007, compared to unfavorable mortality of $1.6 million for the same period of 2006, an unfavorable change of $1.1 million. Year-to-date, mortality was unfavorable by $5.1 million compared to unfavorable mortality of $3.2 million for 2006, an unfavorable change of $1.9 million. These unfavorable mortality variances primarily relate to the nonrecurring sales of $122 million of single premium immediate annuities on 28 lives sold in the fourth quarter of 2004 in a structured transaction. Because this block of annuities is large relative to the total amount of annuities in-force, volatility in mortality results are expected.

The increase in DAC amortization in the first six months of 2007 compared to 2006 is primarily the result of an increase in the Equity Indexed Annuity ("EIA") line due to the impact of rising interest rates, and the corresponding impact on estimated gross profit valuations. This increase was partially offset by DAC unlocking in various lines. The Company periodically reviews and updates as appropriate its key assumptions including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization. The periodic review and updating of assumptions is referred to as "unlocking." During the first six months of 2007, DAC amortization for the Annuities segment was reduced $1.6 million due to favorable DAC unlocking in the market value adjusted annuity line. Favorable DAC unlocking of $0.9 million was recorded by the segment during the first six months of 2006.

Total sales were 93.9% higher for the first six months of 2007 than the same period of the prior year. The Chase Insurance Group acquisition, and the continuation of new annuity sales through the former Chase distribution system, contributed $184.2 million in fixed annuity sales in the first six months of 2007. Excluding the impact of the acquisition, total sales increased 45.9% for the first six months of 2007 compared to the same period of the prior year. Sales of fixed annuities (excluding the impact of the acquisition) increased 56.4% for the first six months of 2007 compared to 2006. The Company launched a new living benefit guaranteed minimum withdrawal benefit rider in its variable annuity product during May 2007, contributing to variable annuity sales growth in the second quarter of

2007. A general improvement in the equity markets reduced the net amount at risk with respect to guaranteed minimum death benefits by 39.2%.

Stable Value Products

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

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
	(Dollars in thousands)			(Dollars in thousands)		
REVENUES						
Net investment income	$ 71,478	$ 82,350	(13.2)%	$ 150,579	$ 164,583	(8.5)%
Realized gains (losses)	(583)	710		842	(4,144)	
Total revenues	70,895	83,060		151,421	160,439	
BENEFITS AND EXPENSES						
Benefits and settlement expenses	57,097	68,415	(16.5)	121,816	135,878	(10.3)
Amortization of deferred policy acquisition costs	987	1,136	(13.1)	2,155	2,365	(8.9)
Other operating expenses	1,039	999	4.0	2,067	2,196	(5.9)
Total benefits and expenses	59,123	70,550	(16.2)	126,038	140,439	(10.3)
INCOME BEFORE INCOME TAX	11,772	12,510	(5.9)	25,383	20,000	26.9
Less realized gains (losses)	(583)	710		842	(4,144)	
OPERATING INCOME	$ 12,355	$ 11,800	4.7	$ 24,541	$ 24,144	1.6

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

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
	(Dollars in thousands)			(Dollars in thousands)		
Sales						
GIC	$ 75,000	$ 111,400	(32.7)%	$ 77,500	$ 157,600	(50.8)%
GFA – Registered Notes – Institutional	50,000	0	n/a	50,000	0	n/a
GFA – Registered Notes – Retail	10,014	13,078	(23.4)	23,134	53,919	(57.1)
	$ 135,014	$ 124,478	8.5	$ 150,634	$ 211,519	(28.8)
	$ 4,780,565	$ 5,853,111	(18.3)	$ 5,119,688	$ 5,914,749	(13.4)

Average Account Values				
Operating Spread				
Net investment income yield	5.99%	5.75%	5.97%	5.67%
Interest credited	4.78	4.78	4.83	4.68
Operating expenses	0.17	0.15	0.17	0.16
Operating spread	1.04%	0.82%	0.97%	0.83%

Operating income increased 4.7% and 1.6% for the second quarter and first six months of 2007, respectively, compared to the same periods of 2006. Decreases in operating earnings resulting from declines in average account values were more than offset by higher operating spreads. Operating spreads increased 22 basis points for the second quarter and 14 basis points for the first six months due to the scheduled maturity of several, large high-coupon contracts and an improvement in portfolio asset yields. The segment continually reviews its investment portfolio for opportunities to increase the net investment income yield in an effort to maintain or increase interest spreads. Operating spreads for the remainder of 2007 are expected to exceed the spreads achieved for the same periods of the prior year. In general, operating earnings for this segment are expected to stabilize as the Company reenters the institutional funding agreement-backed note market.

Total sales increased 8.5% for the second quarter of 2007 while they declined 28.8% for the first six months of 2007 compared to the same period of 2006, as a result of the timing of GIC and retail sales. Fluctuations in sales in these product lines are expected from quarter to quarter as a result of changing market conditions. The Company reentered the institutional funding agreement-backed note market during the second quarter of 2007 with a $50.0 million sale.

Asset Protection

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 ("RV"). In addition, the segment markets a guaranteed asset protection ("GAP") product and an inventory protection product ("IPP").

Segment results were as follows:

	Three Months Ended June 30			**Six Months Ended June 30**		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
REVENUES						
Gross premiums and policy fees	$ 97,985	$ 100,203	(2.2)%	$ 197,405	$ 200,893	(1.7)%
Reinsurance ceded	(45,689)	(53,997)	(15.4)	(90,827)	(109,390)	(17.0)
Net premiums and policy fees	52,296	46,206	13.2	106,578	91,503	16.5
Net investment income	9,467	8,076	17.2	18,679	15,884	17.6
Other income	20,455	16,021	27.7	36,984	28,065	31.8
Total operating revenues	82,218	70,303	16.9	162,241	135,452	19.8
BENEFITS AND EXPENSES						
Benefits and settlement expenses	26,113	22,870	14.2	51,928	45,079	15.2

Amortization of deferred policy acquisition costs	21,464	16,321	31.5	42,167	33,241	26.9
Other operating expenses	23,119	22,208	4.1	46,540	39,490	17.9
Total benefits and expenses	70,696	61,399	15.1	140,635	117,810	19.4
OPERATING INCOME	11,522	8,904	29.4	21,606	17,642	22.5
INCOME BEFORE INCOME TAX	$ 11,522	$ 8,904	29.4	$ 21,606	$ 17,642	22.5

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

	Three Months Ended June 30			**Six Months Ended June 30**		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
Sales						
Credit insurance	$ 31,579	$ 39,952	(21.0)%	$ 59,661	$ 71,799	(16.9)%
Service contracts	86,519	73,347	18.0	159,456	127,064	25.5
Other products	35,796	22,900	56.3	73,826	39,821	85.4
	$ 153,894	$ 136,199	13.0	$ 292,943	$ 238,684	22.7
Loss Ratios (1)						
Credit insurance	30.3%	33.1%		32.4%	33.7%	
Service contracts	69.0	65.3		65.6	65.7	
Other products	32.7	34.5		31.3	33.1	

(1) Incurred claims as a percentage of earned premiums.

Operating income increased 29.4% and 22.5% during the second quarter and first six months of 2007, respectively, compared to the same periods of 2006. Earnings from core product lines increased $2.0 million and $3.6 million, respectively, for the second quarter and first six months of 2007 compared to the prior year, while results from lines the segment is no longer marketing improved $0.6 million and $0.4 million, respectively, for the same periods.

Within the segment’s core product lines, service contract earnings improved $3.4 million for the quarter and $5.7 million year-to-date. The Western General acquisition completed during the third quarter of 2006, contributed $1.1 million and $1.8 million, respectively, to the quarterly and year-to-date increases in the service contract line. The service contract line was also favorably impacted for the second quarter and year-to-date by higher volume and improved loss ratios in marine service contracts. Credit insurance earnings decreased $0.4 million and $0.2 million, respectively, for the second quarter and first six months of 2007, while earnings from other products declined $1.0 million and $1.9 million for the same periods.

Net premiums and policy fees increased for both the current quarter and year-to-date, as compared to 2006, due to increases in the service contract and other lines. Net premiums increased $3.1 million and $8.9 million for the current quarter and year-to-date, respectively, in the service contract line primarily as a result of the Western General acquisition. Within the other product lines, net premiums increased $3.0 million and $7.1 million for the second quarter and first six months of 2007, respectively, compared to the same periods of the prior year, primarily due to increases in the GAP product line. The year-to-date increase in net premiums was partially offset by declines in the credit insurance line and lines the segment is no longer marketing. The declines in both the credit insurance lines and the lines the segment is no longer marketing are expected to continue as the business-in-force continues to decline.

Other income increased 27.7% for the second quarter and 31.8% year-to-date from the same periods of the prior year primarily due to increases in administrative fees on service contracts and GAP products resulting from the increased volume of contracts sold in these product lines. The Western General acquisition contributed to the increase, adding $2.6 million and $5.2 million, respectively, to other income for the second quarter and first six months of 2007.

Benefits and settlement expenses increased 14.2% and 15.2% from the second quarter and first six months of 2006, respectively, as a result of higher expenses in the service contract line primarily due to the Western General acquisition. Western General accounted for a $6.6 million increase in the service contract line. Benefits and settlement expenses also increased $3.0 million in the other product lines for the first six months of 2007 compared to the same period of 2006, reflecting the growth in business in these lines over the past several quarters. These increases were partially offset by declines in credit insurance and lines the segment is no longer marketing of $1.8 million for the first six months of 2007, reflecting the decrease in net premiums in these lines as discussed above. Benefits and settlement expenses have also been favorably impacted by the continuing improvement in loss ratios, which are lower year-to-date in all product lines.

Amortization of DAC is $5.1 million and $8.9 million higher for the current quarter and first six months of 2007, respectively, compared to the same periods of 2006, reflecting the increase in earned premiums in the GAP line. The increases for both periods in other operating expenses are primarily due to higher commissions on service contracts and GAP due to increased volume and higher retrospective commissions resulting from improvements in loss ratios, and the Western General acquisition, which contributed $3.9 million and $7.9 million of operating expense to the current period and first six months of 2007, respectively. The current quarter increase in other operating expenses resulting from the Western General acquisition is partially offset by a $1.1 million adjustment during the second quarter of 2006 to the reinsurance bad debt reserve associated with a product line the segment is no longer marketing. There was no such reserve adjustment related to this product line made during the current quarter.

Total segment sales increased 13.0% and 22.7% for the second quarter and first six months of 2007, respectively, compared to the same period of 2006. Service contract sales continue to improve, exceeding the prior year by 25.5% for the first six months of 2007. The decline in credit insurance sales is due to a significant decrease in sales through financial institutions. The bulk of these sales are derived from a third party administrator relationship which is in runoff. We therefore expect these sales to continue to decline during 2007 compared to 2006 amounts. Other product sales are significantly up in the GAP line and were down slightly in the IPP line.

Corporate and Other

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

The following table summarizes results for this segment:

	Three Months Ended June 30			Six Months Ended June 30		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
REVENUES						
Gross premiums and policy fees	$ 8,458	$ 9,309	(9.1)%	$ 17,627	$ 19,819	(11.1)%
Reinsurance ceded	(4)	(7)	(42.9)	(8)	(11)	(27.3)
Net premiums and policy fees	8,454	9,302	(9.1)	17,619	19,808	(11.1)

Net investment income	37,047	26,343	40.6	73,466	54,530	34.7
Realized gains (losses) - investments	3,707	8,168		6,857	13,494	
Realized gains (losses) - derivatives	237	674		494	2,005	
Other income	683	2,207	(69.1)	1,620		