HAEMONETICS CORP
Form 4
September 21, 2009

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
GELBMAN RONALD G
(Last) (First) (Middle)
400 WOOD ROAD
(Street)
BRAINTREE, MA 02184
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HAEMONETICS CORP [HAE]

3. Date of Earliest Transaction (Month/Day/Year)
09/18/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/18/2009		M		6,000	A	$ 27.3438	11,722 (1)	D	
Common Stock	09/18/2009		S		6,000	D	$ 55.7829	5,722 (1)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amo Underlying Secu (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	An or Nu of Sh
Non-Qualified Stock Option (right to buy)	$ 27.3438	09/18/2009		M			6,000	01/25/2000[2]	01/25/2010	Common Stock	6
Non-Qualified Stock Option (right to buy)	$ 22.555							04/15/2003[2]	04/15/2013	Common Stock	6
Non-Qualified Stock Option (right to buy)	$ 22.9063							05/01/2000[2]	05/01/2010	Common Stock	9
Non-Qualified Stock Option (right to buy)	$ 26.105							05/05/2004	05/05/2014	Common Stock	6
Non-Qualified Stock Option (right to buy)	$ 31.66							04/29/2002[2]	04/29/2012	Common Stock	6
Non-Qualified Stock Option (right to buy)	$ 32.01							05/01/2001[2]	05/01/2011	Common Stock	6
Non-Qualified Stock Option (right to buy)	$ 44.74							09/02/2005[2]	09/02/2015	Common Stock	6
Non-Qualified Stock Option (right to buy)	$ 49.92							08/01/2008[3]	08/01/2014	Common Stock	4
Non-Qualified Stock Option (right to buy)	$ 52.76							05/05/2006[2]	05/05/2013	Common Stock	6
Non-Qualified Stock Option (right to buy)	$ 58.46							07/31/2009[3]	07/31/2018	Common Stock	5
Non-Qualified Stock Option (right to buy)	$ 59.44							07/30/2010[3]	07/30/2016	Common Stock	5

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GELBMAN RONALD G 400 WOOD ROAD BRAINTREE, MA 02184	X			

Signatures

By: Susan M Hanlon For: Ronald Gelbman	09/21/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Total includes Restricted Stock Awards and/or Restricted Stock Units that are subject to restrictions until vesting requirements are met. Grant was made under 2005 Long Term Incentive Compensation Plan.

(2) Grant to reporting person of right to buy shares of common stock exercisable immediately.

(3) Grant to reporting person of right to buy shares of common stock exercisable 100 percent on the first anniversary of the date of grant.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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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	5,844	(72.3)
Total operating revenues	50,128	46,694	7.4	100,056	95,681	4.6
Realized gains (losses) - investments	(674)	4,285		2,718	9,368	
Realized gains (losses) - derivatives	3,015	(6,243)		(354)	6,102	
Total revenues	52,469	44,736	17.3	102,420	111,151	(7.9)
BENEFITS AND EXPENSES						
Benefits and settlement expenses	9,207	8,353	10.2	19,276	17,623	9.4
Amortization of deferred policy acquisition costs	135	868	(84.4)	264	1,823	(85.5)
Other operating expenses	42,086	30,625	37.4	80,039	57,724	38.7
Total benefits and expenses	51,428	39,846	29.1	99,579	77,170	29.0
INCOME BEFORE INCOME TAX	1,041	4,890	(78.7)	2,841	33,981	(91.6)
Less realized gains (losses) - investments	(674)	4,285		2,718	9,368	
Less realized gains (losses) - derivatives	3,015	(6,243)		(354)	6,102	
OPERATING INCOME	$ (1,300)	$ 6,848	(119.0)	$ 477	$ 18,511	(97.4)

Operating income decreased $8.1 million and $18.0 million for the second quarter and first six months of 2007, respectively, compared to the same periods of the prior year, primarily due to higher interest expenses, lower participating mortgage income, higher corporate overhead, and lower net premiums, policy fees and other income, partially offset by increases in net investment income. Operating revenues for the Corporate and Other segment are primarily comprised of net investment income on unallocated capital and net premiums and policy fees related to several non-strategic lines of business. Net investment income for the Corporate and Other segment increased $10.7 million and $18.9 million for the second quarter and first six months of 2007, respectively, compared to 2006, while net premiums and policy fees declined $0.8 million and $2.2 million, respectively, for these same periods. The declines in net premiums and policy fees are the expected result of the runoff of business in the non-strategic lines of business which are no longer being marketed by the Company. The increases in net investment income are primarily the result of increases in unallocated capital and investment income from proceeds of non-recourse funding obligations compared to the prior year.

Benefits and settlement expenses increased 10.2% during the second quarter of 2007 compared to the same period of 2006 due primarily to a $1.1 million reserve strengthening related to the discontinued Residual Value line. The 9.4% year-to-date increase in benefits and settlement expenses is the result of this second quarter reserve strengthening combined with a change in reserves in the cancer insurance line. The cancer insurance reserves increased $0.7 million during the first six months of 2007, while they decreased $0.4 million during the same period of 2006, an unfavorable change of $1.1 million.

Other operating expenses increased 37.4% and 38.7% for the second quarter and first six months of 2007, respectively, compared to the same periods of 2006. These increases are primarily due to increases in interest expense of $10.5 million and $21.0 million for the second quarter and first six months of 2007, respectively, compared to 2006. The higher interest expense is the result of increased borrowings, including $200.0 million of 7.25% Capital Securities issued during 2006 to finance the Chase Insurance Group acquisition and additional issuances of non-recourse funding obligations.

Realized Gains and Losses

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

	Three Months Ended June 30			Six Months Ended June 30		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**
	(Dollars in thousands)			(Dollars in thousands)		
Fixed maturity gains - sales	$ 1,661	$ 6,982	$ (5,321)	$ 3,863	$ 23,263	$ (19,400)
Fixed maturity losses - sales	(1,789)	(881)	(908)	(4,806)	(21,252)	16,446
Equity gains – sales	460	0	460	5,911	235	5,676
Equity losses - sales	0	(7)	7	0	(7)	7
Impairments on fixed maturity securities	0	0	0	(48)	0	(48)
Impairments on equity securities	0	0	0	0	0	0
Mark to market – Modco trading portfolios	(70,765)	0	(70,765)	(65,269)	0	(65,269)
Other	3,824	8,569	(4,745)	7,034	17,577	(10,543)
Total realized gains (losses) - investments	$ (66,609)	$ 14,663	$ (81,272)	$ (53,315)	$ 19,816	$ (73,131)
Foreign currency swaps	$ 396	$ 1,635	$ (1,239)	$ 4,972	$ 2,561	$ 2,411
Foreign currency adjustments on stable value contracts	(366)	(1,600)	1,234	(809)	(2,344)	1,535
Derivatives related to corporate debt	(8,812)	(5,230)	(3,582)	(7,490)	(11,035)	3,545
Derivatives related to mortgage loan commitments	0	0	0	0	19,698	(19,698)
Embedded derivatives related to reinsurance	73,246	542	72,704	70,409	609	69,800
Other derivatives	11,817	(146)	11,963	6,908	(951)	7,859
Total realized gains (losses) – derivatives	$ 76,281	$ (4,799)	$ 81,080	$ 73,990	$ 8,538	$ 65,452

Realized gains and losses on investments reflect portfolio management activities designed to maintain proper matching of assets and liabilities and to enhance long-term investment portfolio performance. The change in net realized investment gains for the current quarter, excluding impairments, reflects the normal operation of the Company's asset/liability program within the context of the changing interest rate environment. Impairments for the first six months of 2007 were less than $0.1 million, while there were no impairments for the same period of 2006. The $7.0 million of other realized gains recognized in the first six months of 2007 is primarily comprised of gains of $6.9 million related to real estate investments. At June 30, 2007, mark to market adjustments of $65.3 million to the Company's modco trading portfolios associated with the Chase Insurance Group acquisition are also included in realized gains and losses. Additional details on the Company's investment performance and evaluation are provided in the "Consolidated Investments" section below.

Realized investment gains and losses related to derivatives represent changes in the fair value of derivative financial instruments and gains (losses) on derivative contracts closed during the period. The Company has entered into foreign currency swaps to mitigate the risk of changes in the value of principal and interest payments to be made on certain of its foreign currency denominated stable value contracts. The Company recorded an immaterial gain and net realized gains of $4.2 million from these securities during the second quarter and first six months of 2007, respectively. These gains were the result of swap and contract maturities and differences in the related foreign currency spot and forward rates used to value the stable value contracts and foreign currency swaps. The Company also uses interest rate swaps to mitigate interest rate risk related to certain Senior Notes, Medium-Term Notes, and subordinated debt securities. Increasing interest rates during the current quarter caused the second quarter 2007 results from these swaps to compare unfavorably with the second quarter of 2006. The Company has taken short positions in U.S. Treasury futures to mitigate interest rate risk related to the Company's mortgage loan commitments. There was no activity in futures during the first six months of 2007.

The Company is also involved in various modified coinsurance and funds withheld arrangements that, in accordance with DIG B36 ("Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments"), contain embedded derivatives. The gains on these embedded derivatives were due to increasing interest rates during the quarter. The investment portfolios that support the related modified coinsurance reserves and funds withheld had mark-to-market losses that substantially offset the gains on these embedded derivatives.

The Company also uses various swaps, options, and swaptions to mitigate risk related to other interest rate exposures of the Company. The company realized gains of $11.7 million and $6.4 million on swaptions for the second quarter and first six months of 2007, respectively. Equity call options generated gains of $1.1 million and $1.3 million for the second quarter and first six months of 2007, respectively. Credit default swaps incurred losses of $0.7 million during the second quarter and first six months of 2007. Embedded derivatives associated with the GMWB (Guaranteed Minimum Withdrawal Benefit) rider on the variable deferred annuity had realized gains of $0.3 million for the second quarter and first six months of 2007.

CONSOLIDATED INVESTMENTS

Portfolio Description

The Company's investment portfolio consists primarily of fixed maturity securities (bonds and redeemable preferred stocks) and commercial mortgage loans. Within its fixed maturity securities, the Company maintains portfolios classified as "available for sale" and "trading". The Company generally purchases its investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, the Company may sell any of its investments to maintain proper matching of assets and liabilities. Accordingly, the Company has classified $17.4 billion or 81.3% of its fixed maturities as "available for sale". These securities are carried at fair value on the Company's Consolidated Balance Sheets. Changes in fair value, net of related DAC and VOBA, are charged or credited directly to share-owners' equity. Changes in fair value that are other than temporary are recorded as realized losses in the Consolidated Statements of Income.

The Company's trading portfolio, which accounts for $4.0 billion or 18.7% of the Company's fixed maturities, consists of two major categories. First, the Company consolidates a special-purpose entity, in accordance with FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46"), whose investments are managed by the Company. At June 30, 2007, fixed maturities with a market value of $405.7 million and short-term investments with a market value of $4.2 million were classified as "trading" securities related to this special-purpose entity. Additionally, at June 30, 2007 the Company holds fixed maturities with a market value of $3.6 billion and short-term investments with a market value of $245.6 million, which were added as part of the Chase Insurance Group acquisition. Investment results for these portfolios, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Trading securities are carried at fair value and changes in fair value are recorded in net income as they occur. Offsetting these amounts are corresponding changes in the fair value of the embedded derivative liability associated with the underlying reinsurance arrangement.

The Company's investments in debt and equity securities are reported at market value, and investments in mortgage loans are reported at amortized cost. At June 30, 2007, the Company's fixed maturity investments (bonds and redeemable preferred stocks) had a market value of $21.46 billion, which is 1% below amortized cost of $21.68 billion. The Company had $4.1 billion in mortgage loans at June 30, 2007. While the Company's mortgage loans do not have quoted market values, at June 30, 2007, the Company estimates the market value of its mortgage loans to be $4.1 billion (using discounted cash flows from the next call date), which is the same as the amortized cost. Most of the Company's mortgage loans have significant prepayment fees. These assets are invested for terms approximately corresponding to anticipated future benefit payments. Thus, market fluctuations are not expected to adversely affect liquidity.

The following table shows the reported values of the Company's invested assets.

	June 30, 2007		**December 31, 2006**	
	(Dollars in thousands)			
Publicly-issued bonds	$ 18,921,964	68.9%	$ 19,226,461	68.8%
Privately issued bonds	2,537,585	9.2	2,140,718	7.7
Redeemable preferred stock	83	0.0	84	0.0
Fixed maturities	21,459,632	78.1	21,367,263	76.5
Equity securities	68,540	0.3	128,695	0.5
Mortgage loans	4,119,350	15.0	3,880,028	13.9
Investment real estate	12,067	0.0	38,918	0.1
Policy loans	819,387	3.0	839,502	3.0
Other long-term investments	185,958	0.7	310,225	1.1
Short-term investments	809,956	2.9	1,381,073	4.9
Total investments	$ 27,474,890	100.0%	$ 27,945,704	100.0%

Included in the preceding table are $4.0 billion and $3.9 billion of fixed maturities and $249.8 million and $311.1 million of short-term investments classified by the Company as trading securities at June 30, 2007 and December 31, 2006, respectively.

Market values for private, non-traded securities are determined as follows: 1) the Company obtains estimates from independent pricing services or 2) the Company estimates market value based upon a comparison to quoted issues of the same issuer or issues of other issuers with similar terms and risk characteristics. The market value of private, non-traded securities was $2.5 billion at June 30, 2007, representing 9.2% of the Company's total invested assets.

The Company participates in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned to third parties for short periods of time. The Company requires collateral of 102% of the market value of the loaned securities to be separately maintained. The loaned securities' market value is monitored on a daily basis, with additional collateral obtained as necessary. At June 30, 2007, securities with a market value of $424 million were loaned under these agreements. As collateral for the loaned securities, the

Company receives short-term investments, which are recorded in “short-term investments” with a corresponding liability recorded in “other liabilities” to account for the Company’s obligation to return the collateral.

The Company reviews its positions on a monthly basis for possible credit concerns and feels comfortable with the current exposure, their credit enhancement, and delinquency experience. At June 30, 2007, the Company had a total of approximately $124.2 million invested in securities that are supported by collateral classified as sub-prime. This represents approximately 0.5% of the Company’s total invested assets. $121 million, or 98%, of these securities have been rated as AAA.

Risk Management and Impairment Review

The Company monitors the overall credit quality of the Company’s portfolio within general guidelines. The following table shows the Company's available for sale fixed maturities by credit rating at June 30, 2007.

S&P or Equivalent Designation	**Market Value**	**Percent of Market Value**
	(Dollars in thousands)	
AAA	$ 7,317,946	41.9%
AA	1,389,964	8.0
A	3,314,112	19.0
BBB	4,918,593	28.2
Investment grade	16,940,615	97.1
BB	410,838	2.4
B	78,584	0.4
CCC or lower	15,638	0.1
In or near default	86	0.0
Below investment grade	505,146	2.9
Redeemable preferred stock	83	0.0
Total	$ 17,445,844	100.0%

Not included in the table above are $4.0 billion of investment grade and $41.1 million of less than investment grade fixed maturities classified by the Company as trading securities.
Limiting bond exposure to any creditor group is another way the Company manages credit risk. The following table summarizes the Company's ten largest fixed maturity exposures to an individual creditor group as of June 30, 2007.

Creditor	**Market Value**
	(Dollars in millions)
AT&T	$ 177.3
Citigroup	131.6
American International Group	123.5

Conoco Phillips	123.2
Wachovia Corp	120.4
Bank of America	116.1
Comcast	114.5
Goldman Sachs	114.4
Toyota Motor Corporation	110.7
Dominion Resources	109.0

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

The Company generally considers a number of factors in determining whether the impairment is other than temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) the intent and ability of the Company to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other than temporary impairment. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

The Company generally considers a number of factors relating to the issuer in determining the financial strength, liquidity, and recoverability of an issuer. These include but are not limited to: available collateral, assets that might be available to repay debt, operating cash flows, financial ratios, access to capital markets, quality of management, market position, exposure to litigation or product warranties, and the effect of general economic conditions on the issuer. Once management has determined that a particular investment has suffered an other than temporary impairment, the asset is written down to its estimated fair value.

There are certain risks and uncertainties associated with determining whether declines in market values are other than temporary. These include significant changes in general economic conditions and business markets, trends in certain industry segments, interest rate fluctuations, rating agency actions, changes in significant accounting estimates and assumptions, commission of fraud, and legislative actions. The Company continuously monitors these factors as they relate to the investment portfolio in determining the status of each investment. Provided below are additional facts concerning the potential effect upon the Company's earnings should circumstances lead management to conclude that some of the current declines in market value are other than temporary.

Unrealized Gains and Losses – Available for Sale Securities

The information presented below relates to investments at a certain point in time and is not necessarily indicative of the status of the portfolio at any time after June 30, 2007, the balance sheet date. Information about unrealized gains and losses is subject to rapidly changing conditions, including volatility of financial markets and changes in interest rates. As indicated above, the Company's management considers a number of factors in determining if an unrealized loss is other than temporary, including its ability and intent to hold the security until recovery. Furthermore, since the timing of recognizing realized gains and losses is largely based on management's decisions as to the timing and selection of investments to be sold, the tables and information provided below should be considered within the context of the overall unrealized gain (loss) position of the portfolio. At June 30, 2007, the Company had an overall pretax net unrealized loss of $222.1 million.

For traded and private fixed maturity and equity securities held by the Company that are in an unrealized loss position at June 30, 2007, the estimated market value, amortized cost, unrealized loss and total time period that the security has been in an unrealized loss position are presented in the table below.

	Estimated Market Value	% Market Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
			(Dollars in thousands)			
<= 90 days	$ 4,783,222	43.5%	$ 4,883,891	42.8%	$ (100,669)	24.7%
>90 days but <= 180 days	1,201,554	10.9	1,254,207	11.0	(52,653)	12.9
>180 days but <= 270 days	152,376	1.4	161,050	1.4	(8,674)	2.1
>270 days but <= 1 year	24,346	0.2	26,229	0.2	(1,883)	0.5
>1 year but <= 2 years	4,297,420	39.1	4,498,600	39.5	(201,180)	49.5
>2 years but <= 3 years	299,257	2.7	318,470	2.8	(19,213)	4.7
>3 years but <= 4 years	168,477	1.5	181,446	1.6	(12,969)	3.2
>4 years but <= 5 years	53,577	0.5	57,920	0.5	(4,343)	1.1
>5 years	19,382	0.2	24,563	0.2	(5,181)	1.3
Total	$ 10,999,611	100.0%	$ 11,406,376	100.0%	$ (406,765)	100.0%

The unrealized losses as of June 30, 2007, primarily relate to the rising interest rate environment experienced over the past several quarters. At June 30, 2007, securities with a market value of $42.5 million and $6.2 million of unrealized losses were issued in Company-sponsored commercial mortgage loan securitizations, including $4.7 million of unrealized losses greater than five years. The Company does not consider these unrealized positions to be other than temporary because the underlying mortgage loans continue to perform consistently with the Company's original expectations.

The Company has no material concentrations of issuers or guarantors of fixed maturity securities. The industry segment composition of all securities in an unrealized loss position held by the Company at June 30, 2007, is presented in the following table.

	Estimated Market Value	% Market Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
			(Dollars in thousands)			
Agency Mortgages	$ 1,760,180	16.0%	$ 1,840,910	16.1%	$ (80,730)	19.8%
Banking	966,226	8.8	999,738	8.8	(33,512)	8.2
Basic Industrial	317,337	2.9	335,506	2.9	(18,169)	4.5
Brokerage	301,036	2.7	310,035	2.7	(8,999)	2.2
Canadian Govt Agencies	10,635	0.1	11,044	0.1	(409)	0.1
Capital Goods	129,758	1.2	135,248	1.2	(5,490)	1.4
Communications	340,525	3.1	366,766	3.2	(26,241)	6.5
Consumer Cyclical	207,445	1.9	222,975	2.0	(15,530)	3.8
Consumer Noncyclical	233,187	2.1	244,575	2.2	(11,388)	2.8

Electric	960,170	8.7	1,011,372	8.9	(51,202)	12.6
Energy	310,178	2.8	321,584	2.8	(11,406)	2.8
Finance Companies	177,393	1.6	187,391	1.6	(9,998)	2.5
Insurance	424,997	3.9	443,935	3.9	(18,938)	4.7
Municipal Agencies	5,521	0.1	5,604	0.0	(83)	0.0
Natural Gas	499,388	4.5	528,770	4.6	(29,382)	7.2
Non-Agency Mortgages	3,318,547	30.2	3,365,958	29.5	(47,411)	11.7
Other Finance	577,133	5.2	596,399	5.2	(19,266)	4.7
Other Industrial	72,199	0.7	75,921	0.7	(3,722)	0.9
Other Utility	14,385	0.1	15,043	0.1	(658)	0.2
Real Estate	9,094	0.1	9,118	0.1	(24)	0.0
Technology	69,422	0.6	71,985	0.6	(2,563)	0.6
Transportation	235,418	2.1	245,977	2.2	(10,559)	2.6
U.S. Government	48,704	0.5	49,606	0.5	(902)	0.2
U.S. Govt Agencies	10,733	0.1	10,916	0.1	(183)	0.0
Total	$ 10,999,611	100.0%	$ 11,406,376	100.0%	$ (406,765)	100.0%

The range of maturity dates for securities in an unrealized loss position at June 30, 2007 varies, with 7.5% maturing in less than 5 years, 25.1% maturing between 5 and 10 years, and 67.4% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position at June 30, 2007.

S&P or Equivalent Designation	**Estimated Market Value**	**% Market Value**	**Amortized Cost**	**% Amortized Cost**	**Unrealized Loss**	**% Unrealized Loss**
			(Dollars in thousands)			
AAA/AA/A	$ 7,924,208	72.1%	$ 8,154,071	71.5%	$ (229,863)	56.5%
BBB	2,721,620	24.7	2,861,061	25.1	(139,441)	34.3
Investment grade	10,645,828	96.8	11,015,132	96.6	(369,304)	90.8
BB	267,338	2.4	294,271	2.6	(26,933)	6.6
B	70,802	0.7	78,547	0.7	(7,745)	1.9
CCC or lower	15,643	0.1	18,426	0.1	(2,783)	0.7
Below investment grade	353,783	3.2	391,244	3.4	(37,461)	9.2
Total	$ 10,999,611	100.0%	$ 11,406,376	100.0%	$ (406,765)	100.0%

At June 30, 2007, securities in an unrealized loss position that were rated as below investment grade represented 3.2% of the total market value and 9.2% of the total unrealized loss. Unrealized losses related to below investment grade securities that had been in an unrealized loss position for more than twelve months were $28.3 million. Securities in an unrealized loss position rated less than investment grade were 1.3% of invested assets. The Company generally purchases its investments with the intent to hold to maturity. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities.

The following table shows the estimated market value, amortized cost, unrealized loss and total time period that the security has been in an unrealized loss position for all below investment grade securities.

	Estimated Market Value	**% Market Value**	**Amortized Cost**	**% Amortized Cost**	**Unrealized Loss**	**% Unrealized Loss**
			(Dollars in thousands)			

<= 90 days	$ 120,518	34.1%	$ 128,235	32.8%	$ (7,717)	20.6%
>90 days but <= 180 days	21,504	6.1	22,867	5.8	(1,363)	3.6
>180 days but <= 270 days	403	0.1	443	0.1	(40)	0.1
>270 days but <= 1 year	0	0.0	0	0.0	0	0.0
>1 year but <= 2 years	132,986	37.6	148,354	37.9	(15,368)	41.0
>2 years but <= 3 years	27,238	7.7	30,402	7.8	(3,164)	8.4
>3 years but <= 4 years	33,435	9.4	38,667	9.9	(5,232)	14.0
>4 years but <= 5 years	137	0.0	167	0.0	(30)	0.1
>5 years	17,562	5.0	22,109	5.7	(4,547)	12.2
Total	$ 353,783	100.0%	$ 391,244	100.0%	$ (37,461)	100.0%

At June 30, 2007, below investment grade securities with a market value of $17.8 million and $4.4 million of unrealized losses were issued in Company-sponsored commercial mortgage loan securitizations, including securities in an unrealized loss position greater than 5 years with a market value of $15.6 million and $4.1 million of unrealized losses. The Company does not consider these unrealized positions to be other than temporary because the underlying mortgage loans continue to perform consistently with the Company's original expectations.

Realized Losses

Realized losses are comprised of both write-downs for other than temporary impairments and actual sales of investments. For the first six months of 2007, the Company recorded pretax other than temporary impairments in its investments of $0.1 million, while no such impairments were recorded for the same period of 2006.

As previously discussed, the Company's management considers several factors when determining other than temporary impairments. Although the Company generally intends to hold securities until maturity, the Company may change its position as a result of a change in circumstances. Any such decision is consistent with the Company's classification of all but a specific portion of its investment portfolio as available for sale. During the six months ended June 30, 2007, the Company sold securities in an unrealized loss position with a market value of $850.4 million resulting in a realized loss of $4.6 million. The Company also engaged in taxable exchanges resulting in a loss of $0.2 million during the first six months of 2007. The securities were sold as a result of normal portfolio rebalancing activity and tax planning. For such securities, the proceeds, realized loss, and total time period that the security had been in an unrealized loss position are presented in the table below.

	Proceeds	**% Proceeds**	**Realized Loss**	**% Realized Loss**
		(Dollars in thousands)		
<= 90 days	$ 768,087	90.3%	$ (3,121)	67.4%
>90 days but <= 180 days	11,377	1.3	(110)	2.4
>180 days but <= 270 days	598	0.1	(2)	0.0
>270 days but <= 1 year	0	0.0	0	0.0
> 1 year	70,320	8.3	(1,401)	30.2
Total	$ 850,382	100.0%	$ (4,634)	100.0%

Mortgage Loans

The Company records mortgage loans net of an allowance for credit losses. This allowance is calculated through analysis of specific loans that are believed to be at a higher risk of becoming impaired in the near future. At June 30, 2007 and December 31, 2006, the Company's allowance for mortgage loan credit losses was $0.5 million and $0.5 million, respectively.

For several years the Company has offered a type of commercial mortgage loan under which the Company will permit a slightly higher loan-to-value ratio in exchange for a participating interest in the cash flows from the underlying real estate. As of June 30, 2007, approximately $550.8 million of the Company's mortgage loans have this participation feature.

At June 30, 2007, delinquent mortgage loans and foreclosed properties were less than 0.1% of invested assets. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities.

LIABILITIES

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

At June 30, 2007, the Company had policy liabilities and accruals of $16.7 billion. The Company's interest-sensitive life insurance policies have a weighted average minimum credited interest rate of approximately 3.74%.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company meets its liquidity requirements primarily through positive cash flows from its operating subsidiaries. Primary sources of cash from the operating subsidiaries are premiums, deposits for policyholder accounts, investment sales and maturities, and investment income. Primary uses of cash for the operating subsidiaries include benefit payments, withdrawals from policyholder accounts, investment purchases, policy acquisition costs, and other operating expenses.

While the Company generally anticipates that the cash flows of its subsidiaries will be sufficient to meet their investment commitments and operating cash needs, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. At June 30, 2007, the Company established a liability of $312 million related to these borrowings. Additionally, the Company may, from time to time, sell short-duration stable value products to complement its cash management practices. The Company has also used securitization transactions involving its commercial mortgage loans to increase liquidity for the operating subsidiaries.

The Company's positive cash flows from operations are used to fund an investment portfolio that provides for future benefit payments. The Company employs a formal asset/liability program to manage the cash flows of its investment portfolio relative to its long-term benefit obligations.

The life insurance subsidiaries were committed at June 30, 2007, to fund mortgage loans in the amount of $1.0 billion. The Company's subsidiaries held approximately $1.16 billion in cash and short-term investments at June 30, 2007. Protective Life Corporation had an additional $14.2 million in cash and short-term investments available for general corporate purposes.

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

Capital Resources

To give the Company flexibility in connection with future acquisitions and other funding needs, the Company has registered debt securities, preferred and common stock, and stock purchase contracts of Protective Life Corporation, and additional preferred securities of special purpose finance subsidiaries under the Securities Act of 1933 on a delayed (or shelf) basis.

Golden Gate Captive Insurance Company ("Golden Gate"), a special purpose financial captive insurance company wholly owned by Protective Life Insurance Company ("Protective Life"), the Company's largest operating subsidiary, has $600 million of non-recourse funding obligations outstanding at June 30, 2007, the maximum amount available under a surplus notes facility established with certain purchasers. These non-recourse funding obligations bear a floating rate of interest and mature in 2037. As the block of business grows and ages, unless additional funding mechanisms are put into place, reserving increases will reduce the Company's available statutory capital and surplus.

In May 2004, the Company's Board of Directors authorized a $100 million share repurchase program, available through May 2, 2007. On May 7, 2007, the Board re-authorized this program through May 6, 2010. There has been no activity under this program, and future activity will be dependent upon many factors, including capital levels, rating agency expectations, and the relative attractiveness of alternative uses for capital.

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

Contractual Obligations

The table below sets forth future maturities of debt, non-recourse funding obligations, subordinated debt securities, stable value products, notes payable, operating lease obligations, other property lease obligations, mortgage loan commitments, liabilities related to variable interest entities, policyholder obligations, and defined benefit pension obligations.

As a result of the adoption of FIN 48, the Company recorded a $29.8 million liability for uncertain tax positions, including interest on unrecognized tax benefits. These amounts are not included in the long-term contractual obligations table because of the difficulty in making reasonably reliable estimates of the occurrence or timing of cash settlements with the respective taxing authorities (see Note 1 to the Consolidated Condensed Financial Statements for additional discussion).

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			Payments due by period		
			(Dollars in thousands)		
Long-term debt[(a)]	$ 576,666	$ 20,764	$ 74,724	$ 46,772	$ 434,406
Non-recourse funding obligations[(b)]	1,858,290	40,920	81,840	81,840	1,653,690
Subordinated debt securities[(c)]	1,969,898	37,147	74,294	74,294	1,784,163
Stable value products[(d)]	5,726,794	1,605,695	1,725,450	1,176,368	1,219,281
Operating leases[(e)]	36,347	6,747	12,215	8,802	8,583
Home office lease[(f)]	104,536	4,525	9,050	9,050	81,911
Mortgage loan commitments	1,040,048	1,040,048			
Liabilities related to variable interest entities[(g)]	470,590	21,720	43,440	405,430	
Policyholder obligations[(h)]	19,580,219	1,400,946	2,331,762	2,596,678	13,250,833
Defined benefit pension obligations[(i)]	1,232	1,232			

(a) Long-term debt includes all principal amounts owed on note agreements, and includes expected interest payments due over the term of the notes.

(b) Non-recourse funding obligations include all principal amounts owed on note agreements, and include expected interest payments due over the term of the notes.

(c) Subordinated debt securities includes all principal amounts owed to non-consolidated special purpose finance subsidiaries of the Company, and includes interest payments due over the term of the obligations.

(d) Anticipated stable value products cash flows, including interest.

(e) Includes all lease payments required under operating lease agreements.

(f) The lease payments shown assume the Company exercises its option to purchase the building at the end of the lease term.

(g) Liabilities related to variable interest entities are not the legal obligations of the Company, but will be repaid with cash flows generated by the variable interest entities. The amounts represent scheduled principal and expected interest payments.

(h) Estimated contractual policyholder obligations are based on mortality, morbidity, and lapse assumptions comparable to the Company's historical experience, modified for recent observed trends. These obligations are based on current balance sheet values and include expected interest crediting, but do not incorporate an expectation of future market growth, or future deposits. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. As separate account obligations are legally insulated from general account obligations, the separate account obligations will be fully funded by cash flows from separate account assets. The Company expects to fully fund the general account obligations from cash flows from general account investments.

(i) Estimated 2007 contributions to the Company's defined benefit pension plan and unfunded excess benefit plan approximate the projected expense to be recognized in 2007. Due to the significance of the assumptions used, this amount could differ from actual results. No estimate has been made of amounts to be contributed to these plans in years subsequent to 2007.

MARKET RISK EXPOSURES AND OFF-BALANCE SHEET ARRANGEMENTS

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

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

Derivative instruments that are currently used as part of the Company's interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate options and interest rate swaptions. The Company's inflation risk management strategy involves the use of swaps that require the Company to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index ("CPI"). The Company uses foreign currency swaps to manage its exposure to changes in the value of foreign currency denominated stable value contracts. The Company also uses S&P 500® options to mitigate its exposure to the value of equity indexed annuity contracts.

The Company has sold credit derivatives to enhance the return on our investment portfolio. The credit default swaps create credit exposure similar to an investment in publicly-issued fixed maturity cash investments.

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

In the ordinary course of its commercial mortgage lending operations, the Company will commit to provide a mortgage loan before the property to be mortgaged has been built or acquired. The mortgage loan commitment is a contractual obligation to fund a mortgage loan when called upon by the borrower. The commitment is not recognized in the Company's financial statements until the commitment is actually funded. The mortgage loan commitment contains terms, including the rate of interest, which may be different than prevailing interest rates. At June 30, 2007, the Company had outstanding mortgage loan commitments of $1.0 billion at an average rate of 6.28%.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 1 to the Consolidated Condensed Financial Statements for information regarding recently issued accounting standards.

RECENT DEVELOPMENTS

A proposal to amend Actuarial Guideline 38 (promulgated by the NAIC and part of the codification of statutory accounting principles) was approved by the NAIC, with an effective date of July 1, 2005. Actuarial Guideline 38, also known as AXXX, sets forth the reserve requirements for universal life insurance with secondary guarantees ("ULSG"). The changes to Actuarial Guideline 38 increase the reserve levels required for many ULSG products, and potentially make those products more expensive and less competitive as compared to other products including term and whole life products. The changes to Actuarial Guideline 38 affect only policies with an issue date of July 1, 2005 and later, and reduce the competitiveness and/or profitability of newly written ULSG products compared to traditional whole life or other high cash value insurance products or other products supported by relatively inexpensive capital (such as reinsurance of redundant reserves). To the extent that the additional reserves are generally considered to be economically redundant, capital market or other solutions may emerge to reduce the impact of the amendment. See Note 9 to the Consolidated Condensed Financial Statements for information regarding a recent capital market transaction designed to fund statutory reserves required by AXXX. The ability of the Company to implement such solutions is at least partially dependent on factors such as the ratings of the Company, the size of the blocks of business affected, the mortality experience of the Company and other factors. The Company cannot predict the continued availability of such solutions to the Company or the form that the market may dictate. The NAIC is continuing to study this issue and has issued additional changes to AG38 and Regulation XXX, which will have the effect of modestly decreasing the reserves required for term and universal life policies that are issued on January 1, 2007, and later. In addition, accounting and actuarial groups within the NAIC have studied whether to change the accounting standards that relate to certain reinsurance credits, and whether, if changes are made, they are to be applied retrospectively, prospectively only, or in a phased-in manner; a requirement to reduce the reserve credit on ceded business, if applied retroactively, would have a negative impact on the statutory capital of the Company. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

During 2006, the NAIC made the determination that certain securities previously classified as "preferred securities" had both debt and equity characteristics and because of this, required unique reporting treatment. Under a short-term solution, NAIC guidance mandates that certain of these securities (meeting established criteria) may have to carry a lower rating for asset valuation reserve and risk based capital calculations. As a result, certain securities will receive a lower rating classification for asset valuation reserve and risk based capital calculations. The Company's insurance subsidiaries currently invest in these securities. As of June 30, 2007, the Company (including both insurance and non-insurance subsidiaries) holds approximately $814 million (statutory carrying value) in securities that meet the aforementioned "notch-down" criteria, depending on evaluation of the underlying characteristics of the securities. This reporting change is expected to have an immaterial effect on the insurance subsidiaries' capital and surplus position, but will increase the capital required to hold these assets. A working group of the NAIC made up of accounting, actuarial and investment parties continue to investigate so as to determine what the appropriate long-term capital treatment should be for these securities. The Company cannot predict what impact a change in this guidance may have.

During 2006, the NAIC's Reinsurance Task Force adopted a proposal suggesting broad changes to the United States reinsurance market, with the stated intent to establish a regulatory system that distinguishes financially strong reinsurers from weak reinsurers, without relying exclusively on their state or country of domicile, with collateral to be determined as appropriate. The task force recommended that regulation of reinsurance procedures be amended to focus on broad based risk and credit criteria and not solely on U.S. licensure status. Evaluation of this proposal will be taken under consideration by the NAIC's Financial Condition (E) Committee, the Reinsurance Task Force's parent committee, as one of its charges during 2007. The Company cannot provide any assurance as to what impact such changes to the United States reinsurance industry will have on the availability, cost, or collateral restrictions associated with ongoing or future reinsurance transactions.

The NAIC is currently in the process of reviewing amendment(s) to the Unfair Trade Practices Act regarding the use of travel in insurance underwriting. The most recent amendment states that the denial of life insurance based upon an individual's past lawful travel experiences or future lawful travel plans, is prohibited unless such action is the result of the application of sound underwriting and actuarial principles related to actual or reasonably anticipated loss experience. The Company cannot predict what form the final proposal may take and therefore cannot predict what impact, if any, such changes would have to the Company.

The financial services industry has become the focus of increased scrutiny by regulatory and law enforcement authorities relating to allegations of improper special payments, price-fixing, bid-rigging, and other alleged misconduct, including payments made by insurers and other financial service providers to brokers and the practices surrounding the placement of insurance business and sales of other financial products, as well as practices related to finite reinsurance. Some publicly held companies have been the subject of enforcement or other actions relating to corporate governance and the integrity of financial statements, most recently relating to the issuance of stock options. Such publicity may generate inquiries to or litigation against publicly held companies and/or financial service providers, even those who do not engage in the business lines or practices currently at issue. It is impossible to predict the outcome of these investigations or proceedings, whether they will expand into other areas not yet contemplated, whether they will result in changes in insurance regulation, whether activities currently thought to be lawful will be characterized as unlawful, or the impact, if any, of this increased regulatory and law enforcement scrutiny of the financial services industry on the Company. As some inquiries appear to encompass a large segment of the financial services industry, it would not be unusual for large numbers of companies in the financial services industry to receive subpoenas, requests for information from regulatory authorities, or other inquiries relating to these and similar matters. From time to time, the Company receives subpoenas, requests, or other inquiries and responds to them in the ordinary course of business.

The California Department of Insurance has promulgated proposed regulations that would characterize some life insurance agents as brokers and impose certain obligations on those agents that may conflict with the interests of insurance carriers or require the agent to, among other things, advise the client with respect to the best available insurer. The Company cannot predict the outcome of this regulatory proposal or whether any other state will propose or adopt similar actions.

In connection with the Company's discontinued Lender's Indemnity product, the Company has discovered facts and circumstances that support allegations by the Company against third parties (including policyholders), and the Company has instituted litigation to establish the rights and liabilities of the various parties; the Company has received at least one claim seeking to assert liability against the Company for policies for which premiums were not received by the Company, and the litigation encompasses such claims. In addition, the Company is defending a class action lawsuit relating to the calculation of certain benefits under the policies. Although the Company cannot predict the outcome of any litigation, the Company does not believe that the outcome of these matters will have a material impact on the financial condition or results of operations of the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change from the disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

(a) Disclosure controls and procedures

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“the Exchange Act”) as of the end of the period covered by this report and concluded that our disclosure controls and procedures were effective as of such date. It should be noted that any system of controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of any control system is based in part upon certain judgments, including the costs and benefits of controls and the likelihood of future events. Because of these and other inherent limitations of control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected.

(b) Changes in internal control over financial reporting

As a result of the 2006 acquisitions of the Chase Insurance Group and Western General, the Company is in the process of making a number of significant changes in its internal controls over financial reporting beginning in the third quarter of 2006. The changes involve combining and centralizing the financial reporting process and the attendant personnel, and system changes. The Company expects this process to continue as we continue to integrate the new businesses into our existing corporate structure. Except as described above, no changes in our internal control over financial reporting occurred during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting. Our internal controls exist within a dynamic environment and the Company continually strives to improve its internal controls and procedures to enhance the quality of its financial reporting.

PART II

Item 1A. Risk Factors

The operating results of companies in the insurance industry have historically been subject to significant fluctuations. The factors which could affect the Company's future results include, but are not limited to, general economic conditions and the known trends and uncertainties. In addition to other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors and Cautionary Factors that may Affect Future Results" in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect the Company's business, financial condition, or future results of operations.

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

During the quarter ended June 30, 2007, the Company issued no securities in transactions which were not registered under the Securities Act of 1933, as amended (the "Act").

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Share Owners of Protective Life Corporation (the "Company") was held on May 7, 2007. Shares entitled to vote at the Annual Meeting totaled 70,056,891 of which 61,865,168 shares were represented.

At the Annual Meeting the following directors were elected. The number of shares cast for and authorized withheld for each nominee is shown below:

Name of Directors	Number of Shares Voted For	Authorization Withheld

John J. McMahon, Jr.	54,977,799	6,887,371
James S. M. French	55,037,569	6,827,600
John D. Johns	54,255,892	7,609,278
H. Corbin Day	59,000,951	2,864,218
W. Michael Warren, Jr.	58,964,280	2,900,889
Malcolm Portera	58,996,682	2,868,487
Thomas L. Hamby	58,990,493	2,874,677
Vanessa Leonard	58,974,034	2,891,136
William A. Terry	58,966,337	2,898,833
Charles D. McCrary	58,928,312	2,936,857
C. Dowd Ritter	58,895,985	2,969,184
Vanessa Wilson	58,975,595	2,889,574

Share owners approved a proposal to ratify the appointment by the Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company and its subsidiaries for 2007. Shares voting for this proposal were 57,549,419, shares voting against were 4,203,648, and shares abstaining were 112,101.

Share owners also approved the Company's Annual Incentive Plan (as Amended and Restated as of January 2007) (the "Plan"). Shares voting for the Plan were 55,903,337, shares voting against were 5,734,762 and shares abstaining were 227,068.

Item 6. Exhibits

Exhibit 10(a) Amendment to the Company's Employment Continuation Agreement (Senior Officers).

Exhibit 31(a) Certification Pursuant to §302 of the Sarbanes Oxley Act of 2002.

Exhibit 31(b) Certification Pursuant to §302 of the Sarbanes Oxley Act of 2002.

Exhibit 32(a) Certification Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Exhibit 32(b) Certification Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Exhibit 99 Safe Harbor for Forward Looking Statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PROTECTIVE LIFE CORPORATION

Date:	August 9, 2007	/s/ Steven G. Walker

Steven G. Walker
Senior Vice President, Controller
and Chief Accounting Officer
(Duly authorized officer)