

PROTECTIVE LIFE CORP
Form 10-Q
August 02, 2013
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from _____ to _____

Commission File Number 001-11339

PROTECTIVE LIFE CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

DELAWARE

(State or other jurisdiction of incorporation or organization)

95-2492236

(IRS Employer Identification Number)

2801 HIGHWAY 280 SOUTH

BIRMINGHAM, ALABAMA 35223

(Address of principal executive offices and zip code)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Smaller Reporting Company

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

Number of shares of Common Stock, \$0.50 Par Value, outstanding as of July 23, 2013: 78,491,514

Table of Contents

PROTECTIVE LIFE CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED JUNE 30, 2013

TABLE OF CONTENTS

	Page
PART I	
Item 1.	
Financial Statements (unaudited):	
<u>Consolidated Condensed Statements of Income For The Three and Six Months Ended June 30, 2013 and 2012</u>	3
<u>Consolidated Condensed Statements of Comprehensive Income (Loss) For The Three and Six Months Ended June 30, 2013 and 2012</u>	4
<u>Consolidated Condensed Balance Sheets as of June 30, 2013 and December 31, 2012</u>	5
<u>Consolidated Condensed Statement of Shareowners' Equity For The Six Months Ended June 30, 2013</u>	7
<u>Consolidated Condensed Statements of Cash Flows For The Six Months Ended June 30, 2013 and 2012</u>	8
<u>Notes to Consolidated Condensed Financial Statements</u>	9
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	54
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	116
Item 4.	
<u>Controls and Procedures</u>	116
PART II	
Item 1A.	
<u>Risk Factors and Cautionary Factors that may Affect Future Results</u>	116
Item 2.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	124
Item 6.	
<u>Exhibits</u>	125
<u>Signature</u>	126

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
(Dollars In Thousands, Except Per Share Amounts)				
Revenues				
Premiums and policy fees	\$ 756,331	\$ 711,429	\$ 1,483,178	\$ 1,407,734
Reinsurance ceded	(390,490)	(344,673)	(725,840)	(649,231)
Net of reinsurance ceded	365,841	366,756	757,338	758,503
Net investment income	466,220	456,222	923,854	918,343
Realized investment gains (losses):				
Derivative financial instruments	143,881	(48,268)	151,266	(78,177)
All other investments	(109,978)	65,593	(114,123)	101,319
Other-than-temporary impairment losses	(1,789)	(13,670)	(3,129)	(48,090)
Portion recognized in other comprehensive income (before taxes)	(2,211)	62	(5,455)	15,718
Net impairment losses recognized in earnings	(4,000)	(13,608)	(8,584)	(32,372)
Other income	94,392	81,480	179,419	192,740
Total revenues	956,356	908,175	1,889,170	1,860,356
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2013 - \$370,752; 2012 - \$306,172; six months: 2013 - \$678,058; 2012 - \$587,979)	557,866	568,522	1,139,746	1,158,151
Amortization of deferred policy acquisition costs and value of business acquired	74,946	67,188	127,185	124,024
Other operating expenses, net of reinsurance ceded: (three months: 2013 - \$50,406; 2012 - \$45,978; six months: 2013 - \$91,395; 2012 - \$92,609)	166,531	164,778	347,599	319,915
Total benefits and expenses	799,343	800,488	1,614,530	1,602,090
Income before income tax	157,013	107,687	274,640	258,266
Income tax expense	53,814	31,532	93,150	83,090
Net income	103,199	76,155	181,490	175,176
Less: Net income (loss) attributable to noncontrolling interests				
Net income available to PLC's common shareowners(1)	\$ 103,199	\$ 76,155	\$ 181,490	\$ 175,176
Net income available to PLC's common shareowners - basic	\$ 1.30	\$ 0.93	\$ 2.29	\$ 2.14
Net income available to PLC's common shareowners - diluted	\$ 1.27	\$ 0.91	\$ 2.24	\$ 2.10
Cash dividends paid per share	\$ 0.20	\$ 0.18	\$ 0.38	\$ 0.34
Average shares outstanding - basic	79,404,770	81,639,756	79,272,814	81,985,649
Average shares outstanding - diluted	81,087,238	83,243,703	80,898,042	83,583,025

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

(1)Protective Life Corporation (PLC)

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PROTECTIVE LIFE CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Unaudited)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Net income	\$ 103,199	\$ 76,155	\$ 181,490	\$ 175,176
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2013 - \$(420,013); 2012 - \$172,798; six months: 2013 - \$(496,308); 2012 - \$178,106)	(780,022)	320,913	(921,713)	330,769
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2013 - \$(6,131); 2012 - \$(886); six months: 2013 - \$(8,835); 2012 - \$(1,335))	(11,387)	(1,647)	(16,409)	(2,480)
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2013 - \$(1,293); 2012 - \$1,391; six months: 2013 - \$2,926; 2012 - \$2,962)	(2,402)	2,583	5,435	5,500
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2013 - \$(1,606); 2012 - \$(2,475); six months: 2013 - \$(63); 2012 - \$397)	(2,983)	(4,596)	(117)	737
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2013 - \$203; 2012 - \$341; six months: 2013 - \$377; 2012 - \$576)	377	631	700	1,069
Change in postretirement benefits liability adjustment, net of income tax: (three months: 2013 - \$(922); 2012 - \$(728); six months: 2013 - \$(1,844); 2012 - \$(1,456))	(1,712)	(1,351)	(3,424)	(2,703)
Total other comprehensive income (loss)	\$ (798,129)	\$ 316,533	\$ (935,528)	\$ 332,892
Comprehensive income (loss)	(694,930)	392,688	(754,038)	508,068
Total comprehensive income attributable to noncontrolling interests				
Total comprehensive income (loss) attributable to Protective Life Corporation	\$ (694,930)	\$ 392,688	\$ (754,038)	\$ 508,068

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	June 30, 2013	As of	December 31, 2012
	(Dollars In Thousands)		
Assets			
Fixed maturities, at fair value (amortized cost: 2013 - \$27,383,749; 2012 - \$26,681,324)	\$ 28,922,966	\$	29,787,959
Fixed maturities, at amortized cost (fair value: 2013 - \$333,771; 2012 - \$319,163)	335,000		300,000
Equity securities, at fair value (cost: 2013 - \$451,189; 2012 - \$409,376)	446,518		411,786
Mortgage loans (2013 and 2012 includes: \$699,267 and \$765,520 related to securitizations)	4,773,709		4,950,201
Investment real estate, net of accumulated depreciation (2013 - \$1,161; 2012 - \$1,017)	16,178		19,816
Policy loans	855,780		865,391
Other long-term investments	429,987		361,837
Short-term investments	172,011		217,812
Total investments	35,952,149		36,914,802
Cash	255,712		368,801
Accrued investment income	365,483		357,368
Accounts and premiums receivable, net of allowance for uncollectible amounts (2013 - \$4,491; 2012 - \$4,290)	96,819		85,500
Reinsurance receivables	5,832,194		5,805,401
Deferred policy acquisition costs and value of business acquired	3,414,988		3,239,519
Goodwill	107,012		108,561
Property and equipment, net of accumulated depreciation (2013 - \$109,194; 2012 - \$105,789)	49,492		47,607
Other assets	305,752		262,052
Income tax receivable			30,827
Assets related to separate accounts			
Variable annuity	11,162,856		9,601,417
Variable universal life	620,429		562,817
Total assets	\$ 58,162,886	\$	57,384,672

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PROTECTIVE LIFE CORPORATION****CONSOLIDATED CONDENSED BALANCE SHEETS**

(continued)

(Unaudited)

	As of	
	June 30, 2013	December 31, 2012
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	\$ 21,932,062	\$ 21,626,386
Unearned premiums	1,454,003	1,396,026
Total policy liabilities and accruals	23,386,065	23,022,412
Stable value product account balances	2,579,172	2,510,559
Annuity account balances	10,509,829	10,658,463
Other policyholders funds	577,821	566,985
Other liabilities	1,225,042	1,434,604
Income tax payable	13	
Deferred income taxes	1,318,175	1,736,389
Non-recourse funding obligations	604,900	586,000
Repurchase program borrowings	340,000	150,000
Debt	1,460,000	1,400,000
Subordinated debt securities	540,593	540,593
Liabilities related to separate accounts		
Variable annuity	11,162,856	9,601,417
Variable universal life	620,429	562,817
Total liabilities	54,324,895	52,770,239
Commitments and contingencies - Note 7		
Shareowners equity		
Preferred Stock; \$1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, \$.50 par value, shares authorized: 2013 and 2012 - 160,000,000 shares issued: 2013 and 2012 - 88,776,960	\$ 44,388	\$ 44,388
Additional paid-in-capital	606,523	606,369
Treasury stock, at cost (2013 - 10,311,907; 2012 - 10,639,467)	(203,385)	(209,840)
Retained earnings	2,589,271	2,437,544
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2013 - \$473,513; 2012 - \$978,656)	879,382	1,817,504
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2013 - \$779; 2012 - \$(2,147))	1,447	(3,988)
Accumulated loss - derivatives, net of income tax: (2013 - \$(1,569); 2012 - \$(1,883))	(2,913)	(3,496)
Postretirement benefits liability adjustment, net of income tax: (2013 - \$(41,312); 2012 - \$(39,468))	(76,722)	(73,298)
Total Protective Life Corporation s shareowners equity	3,837,991	4,615,183
Noncontrolling interest		(750)
Total equity	3,837,991	4,614,433
Total liabilities and shareowners equity	\$ 58,162,886	\$ 57,384,672

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PROTECTIVE LIFE CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS EQUITY**

(Unaudited)

	Common Stock	Additional Paid-In- Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Protective Life Corporation s equity	Non controlling Interest	Total Equity
(Dollars In Thousands)								
Balance, December 31, 2012	\$ 44,388	\$ 606,369	\$ (209,840)	\$ 2,437,544	\$ 1,736,722	\$ 4,615,183	\$ (750)	\$ 4,614,433
Net income for the six months ended June 30, 2013				181,490		181,490		181,490
Other comprehensive income (loss)					(935,528)	(935,528)		(935,528)
Comprehensive income (loss) for the six months ended June 30, 2013						(754,038)		(754,038)
Cash dividends (\$0.38 per share)				(29,763)		(29,763)		(29,763)
Noncontrolling interests		(750)				(750)	750	
Stock-based compensation		904	6,455			7,359		7,359
Balance, June 30, 2013	\$ 44,388	\$ 606,523	\$ (203,385)	\$ 2,589,271	\$ 801,194	\$ 3,837,991	\$	\$ 3,837,991

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Six Months Ended June 30,	
	2013	2012
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	\$ 181,490	\$ 175,176
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized investment losses (gains)	(28,559)	9,230
Amortization of deferred policy acquisition costs and value of business acquired	127,185	124,024
Capitalization of deferred policy acquisition costs	(163,676)	(131,865)
Depreciation expense	4,404	4,527
Deferred income tax	87,166	(32,792)
Accrued income tax	30,840	(11,533)
Interest credited to universal life and investment products	448,223	485,550
Policy fees assessed on universal life and investment products	(442,576)	(379,426)
Change in reinsurance receivables	(26,793)	(70,862)
Change in accrued investment income and other receivables	10,675	4,801
Change in policy liabilities and other policyholders funds of traditional life and health products	63,368	60,603
Trading securities:		
Maturities and principal reductions of investments	101,838	151,362
Sale of investments	167,872	332,332
Cost of investments acquired	(245,520)	(470,663)
Other net change in trading securities	13,544	32,547
Change in other liabilities	(91,691)	(115,963)
Other income - gains on repurchase of non-recourse funding obligations	(3,359)	(35,456)
Other, net	(43,064)	20,119
Net cash provided by operating activities	191,367	151,711
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	489,364	629,778
Sale of investments, available-for-sale	1,336,778	1,178,337
Cost of investments acquired, available-for-sale	(2,684,864)	(2,039,344)
Change in investments, held-to-maturity	(35,000)	
Mortgage loans:		
New lendings	(171,997)	(143,721)
Repayments	345,704	288,402
Change in investment real estate, net	4,148	8,892
Change in policy loans, net	9,611	9,044
Change in other long-term investments, net	(122,295)	(41,388)
Change in short-term investments, net	18,431	(30,497)
Net unsettled security transactions	51,883	59,803
Purchase of property and equipment	(10,865)	(3,667)
Sales of property and equipment	57	
Net cash used in investing activities	(769,045)	(84,361)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	380,000	342,500
Principal payments on line of credit arrangement and debt	(320,000)	(361,650)
Issuance (repayment) of non-recourse funding obligations	18,900	(110,800)
Repurchase program borrowings	190,000	200,000

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Dividends to shareowners	(29,763)	(27,618)
Repurchase of common stock		(52,752)
Investment product deposits and change in universal life deposits	1,718,353	1,711,087
Investment product withdrawals	(1,492,901)	(1,809,786)
Other financing activities, net		(5,752)
Net cash provided by (used in) financing activities	464,589	(114,771)
Change in cash	(113,089)	(47,421)
Cash at beginning of period	368,801	267,298
Cash at end of period	\$ 255,712	\$ 219,877

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and six month periods ended June 30, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The year-end consolidated condensed financial data was derived from audited financial statements but does not include all disclosures required by GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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

Reclassifications and Accounting Changes

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

Entities Included

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

During the first quarter of 2013, the Company sold its ownership interest in an immaterial limited partnership which previously resulted in the recognition of a non-controlling interest in income and equity of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. There were no significant changes to the Company's accounting policies during the six months ended June 30, 2013 other than those discussed below.

Investment Products

The Company establishes liabilities for fixed indexed annuity (FIA) products. These products are deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance. The FIA product is considered a hybrid financial instrument under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) Topic 815 *Derivatives and Hedging* which allows the Company to make the election to value the liabilities of these FIA products at fair value. This election

Table of Contents

was made for the FIA products issued prior to 2010 as the policies were issued. These products are no longer being marketed. The changes in the fair value of the liability for these FIA products are recorded in *Benefit and settlement expenses* with the liability being recorded in *Annuity account balances*. For more information regarding the determination of fair value of annuity account balances please refer to Note 13, *Fair Value of Financial Instruments*. Premiums and policy fees for these FIA products consist of fees that have been assessed against the policy account balances for surrenders. Such fees are recognized when assessed and earned.

During 2013, the Company began marketing a new FIA product. These products are also deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance and are considered hybrid financial instruments under the FASB's ASC Topic 815 *Derivatives and Hedging*. The Company did not elect to value these FIA products at fair value, as a result the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in *Other liabilities*. Changes in the embedded derivative are recorded in *Realized investment gains (losses) - Derivative financial instruments*. For more information regarding the determination of fair value of the FIA embedded derivative refer to Note 13, *Fair Value of Financial Instruments*. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 *Financial Services - Insurance* and is recorded in *Annuity account balances* with any discount to the minimum account value being accreted using the effective yield method. *Benefits and settlement expenses* include accreted interest and benefit claims incurred during the period.

Accounting Pronouncements Recently Adopted

ASU No. 2011-11 Balance Sheet Disclosures about Offsetting Assets and Liabilities. This Update contains new disclosure requirements regarding the nature of an entity's rights of offset and related arrangements associated with its financial and derivative instruments. The new disclosures are designed to make financial statements that are prepared under GAAP more comparable to those prepared under IFRSs. Generally, it is more difficult to qualify for offsetting under IFRSs than it is under GAAP. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with GAAP. To facilitate comparison between financial statements prepared under GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. In January 2013, the FASB issued ASU No. 2013-01, which clarifies that application of ASU No. 2011-11 is limited to certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. Both Updates were effective January 1, 2013. Neither Update had an impact on the Company's results of operations or financial position.

ASU No. 2012-02 Intangibles Goodwill and Other Testing Indefinite-Lived Intangible Assets for Impairment. This Update is intended to reduce the complexity and cost of performing an impairment test for indefinite-lived intangible assets by allowing an entity the option to make a qualitative evaluation about the likelihood of impairment prior to the quantitative calculation required by current guidance. Under the amendments to Topic 350, an entity has the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. If an entity determines it is not more likely than not that impairment exists, quantitative impairment testing is not required. However, if an entity concludes otherwise, the impairment test outlined in current guidance is required to be completed. The Update does not change the current requirement that indefinite-lived intangible assets be reviewed for impairment at least annually. This Update was effective January 1, 2013. This Update did not have an impact on the Company's results of operations or financial position.

ASU No. 2013-02 Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this Update supersede the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU No. 2011-05, *Comprehensive Income - Presentation of Comprehensive Income*, and ASU No. 2011-12, *Comprehensive Income - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Accounting Standards Update No. 2011-05, for all entities. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The Update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its

Table of Contents

entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The Company has added the Accumulated Other Comprehensive Income footnote to disclose the required information beginning in the first quarter of 2013. This Update was effective January 1, 2013. This Update did not have an impact on the Company's results of operations or financial position.

Accounting Pronouncements Not Yet Adopted

ASU No. 2013-10 Derivatives and Hedging Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. This Update provides for the inclusion of the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes, in addition to U.S. Treasury rates and LIBOR. The amendments in the Update also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for transactions entered into on or after July 17, 2013. The Company is currently evaluating the impact of the Update on its policies and processes.

ASU No. 2013-11 Income Taxes Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The objective of this Update is to eliminate diversity in practice related to the presentation of certain unrecognized tax benefits. The Update provides that unrecognized tax benefits should be presented as a reduction of a deferred tax asset for a net operating loss or other tax credit carryforward when settlement in this manner is available under the tax law. The amendments are effective for annual periods beginning after December 15, 2013 and interim periods therein. The Update does not require new recurring disclosures, and is not expected to have an impact on the Company's results of operations or financial position.

3. INVESTMENT OPERATIONS

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Fixed maturities	\$ 19,152	\$ 15,994	\$ 31,461	\$ 36,040
Equity securities	2,366	148	2,367	148
Impairments on fixed maturity securities	(2,910)	(13,608)	(6,497)	(32,372)
Impairments on equity securities	(1,090)		(2,087)	
Modco trading portfolio	(126,694)	56,063	(142,022)	74,162
Other investments	(4,802)	(6,612)	(5,929)	(9,031)
Total realized gains (losses) - investments	\$ (113,978)	\$ 51,985	\$ (122,707)	\$ 68,947

For the three and six months ended June 30, 2013, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$23.9 million and \$36.8 million and gross realized losses were \$6.2 million and \$11.1 million, including \$3.8 million and \$8.2 million of impairment losses, respectively.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

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

For the three and six months ended June 30, 2013, the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$409.9 million and \$798.5 million, respectively. The gain realized on the sale of these securities was \$23.9 million and \$36.8 million, respectively. For the three and six months ended June 30, 2012, the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$411.8 million and \$900.1 million, respectively. The gain realized on the sale of these securities was \$16.2 million and \$39.4 million, respectively.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

For the three and six months ended June 30, 2013, the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$53.2 million and \$57.2 million, respectively. The losses realized on the sale of these securities were \$2.4 million and \$3.0 million, respectively.

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

Certain European countries have experienced varying degrees of financial stress. Risks from the continued debt crisis in Europe could continue to disrupt the financial markets which could have a detrimental impact on global economic conditions and on sovereign and non-sovereign obligations. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on financial markets.

The amortized cost and fair value of the Company's investments classified as available-for-sale as of June 30, 2013 and December 31, 2012, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
	(Dollars In Thousands)				
2013					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	\$ 1,532,242	\$ 55,117	\$ (15,120)	\$ 1,572,239	\$ 3,124
Commercial mortgage-backed securities	937,514	27,360	(22,070)	942,804	
Other asset-backed securities	947,236	14,798	(39,122)	922,912	(112)
U.S. government-related securities	1,160,068	41,132	(25,033)	1,176,167	
Other government-related securities	62,795	2,891	(1)	65,685	
States, municipals, and political subdivisions	1,191,794	149,938	(3,987)	1,337,745	
Corporate bonds	18,699,567	1,646,771	(293,457)	20,052,881	
	24,531,216	1,938,007	(398,790)	26,070,433	3,012
Equity securities	428,805	8,468	(13,138)	424,135	(786)
Short-term investments	80,447			80,447	
	\$ 25,040,468	\$ 1,946,475	\$ (411,928)	\$ 26,575,015	\$ 2,226
2012					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	\$ 1,766,440	\$ 92,265	\$ (19,375)	\$ 1,839,330	\$ (406)
Commercial mortgage-backed securities	797,844	72,577	(598)	869,823	
Other asset-backed securities	1,023,649	12,788	(61,424)	975,013	(241)
U.S. government-related securities	1,099,001	71,537	(595)	1,169,943	
Other government-related securities	93,565	7,258	(45)	100,778	
States, municipals, and political subdivisions	1,188,077	255,900	(264)	1,443,713	
Corporate bonds	17,705,440	2,725,057	(48,446)	20,382,051	(5,487)
	23,674,016	3,237,382	(130,747)	26,780,651	(6,134)
Equity securities	389,821	12,443	(10,033)	392,231	
Short-term investments	98,877			98,877	
	\$ 24,162,714	\$ 3,249,825	\$ (140,780)	\$ 27,271,759	\$ (6,134)

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The amortized cost and fair value of the Company's investments classified as held-to-maturity as of June 30, 2013 and December 31, 2012, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI
	(Dollars In Thousands)				
2013					
Fixed maturities:					
Other	\$ 335,000	\$	\$ (1,229)	\$ 333,771	\$
	\$ 335,000	\$	\$ (1,229)	\$ 333,771	\$
2012					
Fixed maturities:					
Other	\$ 300,000	\$ 19,163	\$	\$ 319,163	\$
	\$ 300,000	\$ 19,163	\$	\$ 319,163	\$

As of June 30, 2013 and December 31, 2012, the Company had an additional \$2.9 billion and \$3.0 billion of fixed maturities, \$22.4 million and \$19.6 million of equity securities, and \$91.6 million and \$118.9 million of short-term investments classified as trading securities, respectively.

The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of June 30, 2013, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars In Thousands)			
Due in one year or less	\$ 543,656	\$ 550,573	\$	\$
Due after one year through five years	4,166,061	4,532,721		
Due after five years through ten years	6,823,942	7,081,054		
Due after ten years	12,997,557	13,906,085	335,000	333,771
	\$ 24,531,216	\$ 26,070,433	\$ 335,000	\$ 333,771

During the three and six months ended June 30, 2013, the Company recorded pre-tax other-than-temporary impairments of investments of \$1.8 million and \$3.1 million, of which \$0.7 million and \$1.0 million related to debt securities and \$1.1 million and \$2.1 million related to equity securities, respectively. Credit impairments recorded in earnings during the three and six months ended June 30, 2013 were \$4.0 million and \$8.6 million, respectively. During the three and six months ended June 30, 2013, \$2.2 million and \$5.5 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses, respectively. For the three and six months ended June 30, 2013, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intended to sell or expected to be required to sell.

During the three and six months ended June 30, 2012, the Company recorded pre-tax other-than-temporary impairments of investments of \$13.7 million and \$48.1 million, respectively. Of the \$13.7 million of impairments for the three months ended June 30, 2012, \$13.6 million was

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

recorded in earnings and \$0.1 million was recorded in other comprehensive income (loss). Of the \$48.1 million of impairments for the six months ended June 30, 2012, \$32.4 million was recorded in earnings and \$15.7 million was recorded in other comprehensive income (loss). There was an immaterial amount of impairments related to equity securities. During the three and six months ended June 30, 2012, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intended to sell or expected to be required to sell.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Beginning balance	\$ 63,183	\$ 88,352	\$ 122,121	\$ 69,719
Additions for newly impaired securities	618	3,619	1,615	19,473
Additions for previously impaired securities	1,568	9,499	3,054	12,278
Reductions for previously impaired securities due to a change in expected cash flows	(6,049)		(67,470)	
Reductions for previously impaired securities that were sold in the current period	(7,488)		(7,488)	
Ending balance	\$ 51,832	\$ 101,470	\$ 51,832	\$ 101,470

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2013:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	\$ 213,323	\$ (8,659)	\$ 132,251	\$ (6,461)	\$ 345,574	\$ (15,120)
Commercial mortgage-backed securities	465,172	(21,794)	6,816	(276)	471,988	(22,070)
Other asset-backed securities	119,661	(7,234)	548,015	(31,888)	667,676	(39,122)
U.S. government-related securities	594,696	(25,033)			594,696	(25,033)
Other government-related securities	20,000	(1)			20,000	(1)
States, municipalities, and political subdivisions	65,302	(3,987)			65,302	(3,987)
Corporate bonds	4,018,798	(272,018)	181,307	(21,439)	4,200,105	(293,457)
Equities	191,639	(6,159)	23,496	(6,979)	215,135	(13,138)
	\$ 5,688,591	\$ (344,885)	\$ 891,885	\$ (67,043)	\$ 6,580,476	\$ (411,928)

RMBS have a gross unrealized loss greater than twelve months of \$6.5 million as of June 30, 2013. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of \$31.9 million as of June 30, 2013. This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). These unrealized losses have occurred within the Company's auction rate securities (ARS) portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not

honor the FFELP guarantee, if it were necessary.

The corporate bonds category has gross unrealized losses less than and greater than twelve months of \$272.0 million and \$21.4 million, respectively, as of June 30, 2013. These declines were primarily related to changes in interest rates during the period. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

The equities category has a gross unrealized loss greater than twelve months of \$7.0 million as of June 30, 2013. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The Company does not consider these unrealized loss positions to be other-than-temporary, based on the factors discussed and because the Company has the ability and intent to hold these investments until the fair values recover, and does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of debt securities.

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2012:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Residential mortgage-backed securities	\$ 101,522	\$ (9,605)	\$ 166,000	\$ (9,770)	\$ 267,522	\$ (19,375)
Commercial mortgage-backed securities	50,601	(598)			50,601	(598)
Other asset-backed securities	479,223	(28,179)	242,558	(33,245)	721,781	(61,424)
U.S. government-related securities	107,802	(595)			107,802	(595)
Other government-related securities	14,955	(45)			14,955	(45)
States, municipalities, and political subdivisions	11,526	(264)			11,526	(264)
Corporate bonds	777,552	(23,663)	364,110	(24,783)	1,141,662	(48,446)
Equities	35,059	(5,150)	21,954	(4,883)	57,013	(10,033)
	\$ 1,578,240	\$ (68,099)	\$ 794,622	\$ (72,681)	\$ 2,372,862	\$ (140,780)

RMBS had a gross unrealized loss greater than twelve months of \$9.8 million as of December 31, 2012. The non-agency RMBS market experienced improvements during the year, but these losses represented securities where credit concerns were more pronounced. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities had a gross unrealized loss greater than twelve months of \$33.2 million as of December 31, 2012. This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the FFELP. These unrealized losses have occurred within the Company's ARS portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The corporate bonds category had gross unrealized losses greater than twelve months of \$24.8 million as of December 31, 2012. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The equities category had a gross unrealized loss greater than twelve months of \$4.9 million as of December 31, 2012. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information.

The Company does not consider these unrealized loss positions to be other-than-temporary, based on the factors discussed and because the Company has the ability and intent to hold these investments until the fair values recover, and does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of debt securities.

As of June 30, 2013, the Company had securities in its available-for-sale portfolio which were rated below investment grade of \$1.4 billion and had an amortized cost of \$1.4 billion. In addition, included in the Company's trading portfolio, the Company held \$356.5 million of securities which were rated below investment grade. Approximately \$423.6 million of the below investment grade securities were not publicly traded.

Table of Contents

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Fixed maturities	\$ (849,033)	\$ 340,781	\$ (1,018,822)	\$ 360,227
Equity securities	(8,392)	(1,411)	(4,602)	3,695

Variable Interest Entities

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the FASB ASC (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and compares those characteristics to applicable criteria to determine whether the entity is a Variable Interest Entity (VIE). If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

Based on this analysis, the Company had an interest in one wholly owned subsidiary, Red Mountain, LLC (Red Mountain), that was continued to be classified as a VIE as of June 30, 2013. The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company (Golden Gate V) and the Company in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued the note to Golden Gate V. Credit enhancement on the Red Mountain Note is provided by an unrelated third party. For details of this transaction, see Note 6, *Debt and Other Obligations*. The Company had the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company s risk of loss related to the VIE is limited to its investment of \$10,000. Additionally, the holding company (PLC) has guaranteed the VIE s payment obligation for the credit enhancement fee to the unrelated third party provider.

4. MORTGAGE LOANS**Mortgage Loans**

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of June 30, 2013, the Company s mortgage loan holdings were approximately \$4.8 billion. The Company has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. The Company s underwriting procedures relative to its commercial loan portfolio are

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

based, in the Company's view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history.

The Company's commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount

Table of Contents

of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income.

Many of the mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called at their next call dates, approximately \$106.1 million would become due for the remainder of 2013, \$1.3 billion in 2014 through 2018, \$581.3 million in 2019 through 2023, and \$173.7 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of June 30, 2013 and December 31, 2012, approximately \$705.7 million and \$817.3 million, respectively, of the Company's mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the three and six month period ended June 30, 2013, the Company recognized \$5.8 million and \$9.2 million of participating mortgage loan income, respectively.

As of June 30, 2013, approximately \$17.6 million, or 0.05%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. The Company's mortgage loan portfolio consists of two categories of loans: (1) those not subject to a pooling and servicing agreement and (2) those subject to a contractual pooling and servicing agreement.

As of June 30, 2013, \$15.4 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming. The Company did not foreclose any nonperforming loans during the six months ended June 30, 2013.

As of June 30, 2013, \$2.2 million of loans subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the six months ended June 30, 2013. The Company did not foreclose on any nonperforming loans during the six months ended June 30, 2013.

As of June 30, 2013 and December 31, 2012, the Company had an allowance for mortgage loan credit losses of \$7.0 million and \$2.9 million, respectively. Due to the Company's loss experience and nature of the loan portfolio, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and insurance. Through this monitoring process, the Company assesses the risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan's original effective interest rate, or the current estimated fair value of the loan's underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

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

	As of	
	June 30, 2013	December 31, 2012
	(Dollars In Thousands)	
Beginning balance	\$ 2,875	\$ 6,475
Charge offs	(2,292)	(9,840)
Recoveries	(374)	(628)
Provision	6,826	6,868
Ending balance	\$ 7,035	\$ 2,875

It is the Company's policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company's general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart as of June 30, 2013.

	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	\$ 28,707	\$ 2,982	\$ 14,642	\$ 46,331
Number of delinquent commercial mortgage loans	7	2	5	14

The Company's commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to ninety days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart as of June 30, 2013 and December 31, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
	(Dollars In Thousands)					
2013						
Commercial mortgage loans:						
With no related allowance recorded	\$ 14,840	\$ 16,372	\$	\$ 2,473	\$	\$ 25
With an allowance recorded	35,145	35,166	7,035	5,021	561	489
2012						
Commercial mortgage loans:						
With no related allowance recorded	\$ 14,619	\$ 16,942	\$	\$ 2,088	\$ 53	\$ 100
With an allowance recorded	13,927	13,927	2,875	3,482	154	154

5. GOODWILL

During the six months ended June 30, 2013, the Company decreased its goodwill balance by approximately \$1.5 million. The decrease was due to adjustments in the Acquisitions segment related to tax benefits realized during 2013 on the portion of tax goodwill in excess of GAAP basis goodwill. As of June 30, 2013, the Company had an aggregate goodwill balance of \$107.0 million.

Table of Contents

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business to assess the recoverability of the capitalized acquisition goodwill. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company first determines through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If it is determined that it is more likely than not that impairment exists, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company's material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of the Company's reporting units are dependent on a number of significant assumptions. The Company's estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. Additionally, the discount rate used is based on the Company's judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows. As of December 31, 2012, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary. During the six months ended June 30, 2013, no events occurred which indicate an impairment should be recorded or which would invalidate the previous results of the Company's impairment assessment.

While adverse market conditions for certain businesses may have a significant impact on the fair value of the Company's reporting units, in the Company's view, the key assumptions used in its estimates of fair value of its reporting units continue to be adequate.

6. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt Securities

Debt and subordinated debt securities are summarized as follows:

	June 30, 2013	As of December 31, 2012
	(Dollars In Thousands)	
Debt (year of issue):		
Revolving Line of Credit	\$ 360,000	\$ 50,000
4.30% Senior Notes (2003), due 2013		250,000
4.875% Senior Notes (2004), due 2014	150,000	150,000
6.40% Senior Notes (2007), due 2018	150,000	150,000
7.375% Senior Notes (2009), due 2019	400,000	400,000
8.00% Senior Notes (2009), due 2024, callable 2014	100,000	100,000
8.45% Senior Notes (2009), due 2039	300,000	300,000
	\$ 1,460,000	\$ 1,400,000
Subordinated debt securities (year of issue):		
6.125% Subordinated Debentures (2004), due 2034, callable 2009	\$ 103,093	\$ 103,093

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

6.25% Subordinated Debentures (2012), due 2042, callable 2017	287,500		287,500	
6.00% Subordinated Debentures (2012), due 2042, callable 2017	150,000		150,000	
	\$	540,593	\$	540,593

The Company has access to a Credit Facility that provides the ability to borrow on an unsecured basis up to an aggregate principal amount of \$750 million. The Company has the right in certain circumstances to request that the

Table of Contents

commitment under the Credit Facility be increased up to a maximum principal amount of \$1.0 billion. Balances outstanding under the Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's senior unsecured long-term debt (Senior Debt), or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company's Senior Debt. The Credit Facility also provides for a facility fee at a rate that varies with the ratings of the Company's Senior Debt and that is calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The maturity date on the Credit Facility is July 17, 2017. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of June 30, 2013. There was an outstanding balance of \$360.0 million at an interest rate of LIBOR plus 1.20% under the Credit Facility as of June 30, 2013.

During the three month period ending June 30, 2013, the Company's 4.30% Senior notes issued in 2003 matured. The maturity resulted in the payment of \$250 million of principal to the holders of the senior notes on June 3, 2013. The Company borrowed an additional \$250 million from its Credit Facility to finance the final principal payment.

Non-Recourse Funding Obligations

Golden Gate II Captive Insurance Company

Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by Protective Life Insurance Company (PLICO), had \$575 million of outstanding non-recourse funding obligations as of June 30, 2013. These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of June 30, 2013, securities related to \$269.9 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to \$305.1 million of the non-recourse funding obligations were held by our affiliates.

Golden Gate V Vermont Captive Insurance Company

On October 10, 2012, Golden Gate V and Red Mountain, indirect wholly owned subsidiaries of the Company, entered into a 20-year transaction to finance up to \$945 million of XXXX reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, West Coast Life Insurance Company (WCL). Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of \$275 million, increasing to a maximum of \$945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V's obligations under a reinsurance agreement with WCL, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through the structure, Hannover Life Reassurance Company of America (Hannover Re), the ultimate risk taker in the transaction, provides credit enhancement to the Red Mountain note for the 20-year term in exchange for a fee. The transaction is non-recourse to Golden Gate V, Red Mountain, WCL, PLICO and the Company, meaning that none of these companies are liable for the reimbursement of any credit enhancement payments required to be made. As of June 30, 2013, the principal balance of the Red Mountain note was \$335 million. In connection with the transaction, we have entered into certain support agreements under which we guarantee or otherwise support certain obligations of Golden Gate V or Red Mountain.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

In connection with the transaction outlined above, Golden Gate V had a \$335 million outstanding non-recourse funding obligation as of June 30, 2013. This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of \$945 million, and accrues interest at a fixed annual rate of 6.25%.

Table of Contents

Non-recourse funding obligations outstanding as of June 30, 2013, on a consolidated basis, are shown in the following table:

Issuer	Balance (Dollars In Thousands)	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
Golden Gate II Captive Insurance Company	\$ 269,900	2052	1.00%
Golden Gate V Vermont Captive Insurance Company	335,000	2037	6.25%
Total	\$ 604,900		

During the six months ended June 30, 2013, the Company repurchased \$16.1 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a \$3.4 million pre-tax gain for the Company. During the six months ended June 30, 2012, the Company repurchased \$110.8 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a \$35.5 million pre-tax gain for the Company. These gains are recorded in other income in the consolidated statements of income.

Repurchase Program Borrowings

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, 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. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are for a term less than ninety days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of June 30, 2013, the fair value of securities pledged under the repurchase program was \$356.1 million and the repurchase obligation of \$340.0 million was included in the Company's consolidated condensed balance sheets (at an average borrowing rate of 8 basis points). During the six months ended June 30, 2013, the maximum balance outstanding at any one point in time related to these programs was \$645.1 million. The average daily balance was \$423.9 million (at an average borrowing rate of 12 basis points) during the six months ended June 30, 2013. As of December 31, 2012, the Company had a \$150.0 million outstanding balance related to such borrowings. During 2012, the maximum balance outstanding at any one point in time related to these programs was \$425.0 million. The average daily balance was \$266.3 million (at an average borrowing rate of 14 basis points) during the year ended December 31, 2012.

7. COMMITMENTS AND CONTINGENCIES

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

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

A number of civil jury verdicts have been returned against insurers, broker dealers and other providers of financial services involving sales, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Often

Table of Contents

these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive and non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive non-economic compensatory damages which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. Publicly held companies in general and the financial services and insurance industries in particular are also sometimes the target of law enforcement and regulatory investigations relating to the numerous laws and regulations that govern such companies. Some companies have been the subject of law enforcement or regulatory actions or other actions resulting from such investigations. The Company, in the ordinary course of business, is involved in such matters.

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

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

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

The Company has received notice from two third party auditors that certain of the Company's insurance subsidiaries, as well as certain other insurance companies for which the Company has co-insured blocks of life insurance and annuity policies, will be audited for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that should be escheated to the state. The Company has recorded a reserve with respect to life insurance policies issued by the Company's subsidiaries and certain co-insured blocks of life insurance policies issued by other companies in connection with these pending audits. The Company does not consider the amount of this reserve to be material to the Company's financial condition or results of operations. With respect to a separate block of life insurance policies that is co-insured by a subsidiary of the Company, the Company is presently unable to estimate the reasonably possible loss or range of loss due to a number of factors, including uncertainty as to the legal theory or theories that may give rise to liability, uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with such policies, the distinct characteristics of this co-insured block of policies which differentiate it from the blocks of life insurance policies for which the Company has recorded a reserve, and the early stages of the audits being conducted. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with this block of co-insured policies probable or reasonably estimable.

Certain of the Company's subsidiaries have received notice that they are subject to a targeted multi-state examination with respect to their claims paying practices and their use of the U.S. Social Security Administration's Death Master File or similar databases (a Death Database) to identify

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

unreported deaths in their life insurance policies, annuity contracts and retained asset accounts. There is no clear basis in previously existing law for requiring a life insurer to search for unreported deaths in order to determine whether a benefit is owed, and substantial legal authority exists to support the position that the prevailing industry practice was lawful. A number of life insurers,

Table of Contents

however, have entered into settlement or consent agreements with state insurance regulators under which the life insurers agreed to implement procedures for periodically comparing their life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, and escheating the benefits and interest as well as penalties to the state if the beneficiary could not be found. It has been publicly reported that the life insurers have paid substantial administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements. The Company believes it is reasonably possible that insurance regulators could demand from the Company administrative and/or examination fees relating to the targeted multi-state examination. Based on publicly reported payments by other life insurers, the Company estimates the range of such fees to be from \$0 to \$3.5 million.

8. STOCK-BASED COMPENSATION

During the six months ended June 30, 2013, 298,500 performance shares with an estimated fair value of \$9.3 million were awarded. The criteria for payment of the 2013 performance awards is based primarily on the Company's average operating return on average equity (ROE) over a three-year period. If the Company's ROE is below 10.0%, no award is earned. If the Company's ROE is at or above 11.5%, the award maximum is earned. Awards are paid in shares of the Company's common stock.

Restricted stock units are awarded to participants and include certain restrictions relating to vesting periods. The Company issued 141,000 restricted stock units for the six months ended June 30, 2013. These awards had a total fair value at grant date of \$4.4 million. Approximately half of these restricted stock units vest in 2016, and the remainder vest in 2017. These awards have been recorded as equity-classified awards for the period ended June 30, 2013.

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

		Weighted-Average Base Price per share	No. of SARs
Balance at December 31, 2012	\$	22.15	1,641,167
SARs granted			
SARs exercised / forfeited		25.68	(132,849)
Balance at June 30, 2013	\$	21.84	1,508,318

The Company will pay an amount in stock equal to the difference between the specified base price of the Company's common stock and the market value at the exercise date for each SAR. There were no SARs issued for the six months ended June 30, 2013.

Table of Contents**9. EMPLOYEE BENEFIT PLANS**

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Service cost – benefits earned during the period	\$ 2,708	\$ 2,561	\$ 5,416	\$ 5,122
Interest cost on projected benefit obligation	2,553	2,604	5,106	5,208
Expected return on plan assets	(2,759)	(2,673)	(5,518)	(5,346)
Amortization of prior service cost/(credit)	(95)	(95)	(190)	(190)
Amortization of actuarial losses	2,729	2,175	5,458	4,350
Total benefit cost	\$ 5,136	\$ 4,572	\$ 10,272	\$ 9,144

During the six months ended June 30, 2013, the Company contributed \$2.3 million to its defined benefit pension plan for the 2013 plan year. During July of 2013, the Company contributed \$2.3 million to the defined benefit pension plan for the 2013 plan year. The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage (AFTAP) of at least 80%.

In July of 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21), which includes pension funding stabilization provisions, was signed into law. These provisions establish an interest rate corridor which is designed to stabilize the segment rates used to determine funding requirements from the effects of interest rate volatility. The funding stabilization provisions of MAP-21 will reduce the Company's minimum required defined benefit plan contributions for the 2012 and 2013 plan year. The Company is evaluating the impact this change will have on funding requirements in future years. Since the funding stabilization provisions of MAP-21 do not apply for Pension Benefit Guaranty Corporation (PBGC) reporting purposes, the Company may also make additional contributions in future periods to maintain an 80% funded status for PBGC reporting purposes.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the six months ended June 30, 2013, was immaterial to the Company's financial statements.

Table of Contents**10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table summarizes the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) (AOCI) as of June 30, 2013.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments	Accumulated Gain and Loss Derivatives (Dollars In Thousands, Net of Tax)	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Beginning Balance, December 31, 2012	\$ 1,813,516	\$ (3,496)	\$ (73,298)	\$ 1,736,722
Other comprehensive income (loss) before reclassifications	(921,713)	(117)	(3,424)	(925,254)
Other comprehensive income (loss) relating to other- than-temporary impaired investments for which a portion has been recognized in earnings	5,435			5,435
Amounts reclassified from accumulated other comprehensive income (loss)(1)	(16,409)	700		(15,709)
Net current-period other comprehensive income (loss)	(932,687)	583	(3,424)	(935,528)
Ending Balance, June 30, 2013	\$ 880,829	\$ (2,913)	\$ (76,722)	\$ 801,194

(1) See Reclassification table below for details.

The following table summarizes the reclassifications amounts out of AOCI for the three and six months ended June 30, 2013.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
--	--

Accumulated Other Comprehensive Income (Loss) Components

**For The Three Months Ended
June 30, 2013**
**Gains and losses on derivative
instruments**

Net settlement (expense)/benefit(1)	\$	(580)	Benefits and settlement expenses, net of reinsurance ceded
		(580)	Total before tax
		203	Tax (expense) or benefit
	\$	(377)	Net of tax

**Unrealized gains and losses on
available-for-sale securities**

Net investment gains/losses	\$	21,518	Realized investment gains (losses): All other investments
Impairments recognized in earnings		(4,000)	Net impairment losses recognized in earnings
		17,518	Total before tax
		(6,131)	Tax (expense) or benefit
	\$	11,387	Net of tax

(1) See Note 14, *Derivative Financial Instruments* for additional information.

Table of Contents**Reclassifications Out of Accumulated Other Comprehensive Income (Loss)**

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components		
For The Six Months Ended June 30, 2013		
Gains and losses on derivative instruments		
Net settlement (expense)/benefit(1)	\$ (1,077)	Benefits and settlement expenses, net of reinsurance ceded
	(1,077)	Total before tax
	377	Tax (expense) or benefit
	\$ (700)	Net of tax
Unrealized gains and losses on available-for-sale securities		
Net investment gains/losses	\$ 33,828	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(8,584)	Net impairment losses recognized in earnings
	25,244	Total before tax
	(8,835)	Tax (expense) or benefit
	\$ 16,409	Net of tax

(1) See Note 14, *Derivative Financial Instruments* for additional information.

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

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

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
(Dollars In Thousands, Except Per Share Amounts)				
Calculation of basic earnings per share:				
Net income available to PLC's common shareowners	\$ 103,199	\$ 76,155	\$ 181,490	\$ 175,176
Average shares issued and outstanding	78,456,663	80,731,368	78,332,481	81,090,440
Issuable under various deferred compensation plans	948,107	908,388	940,333	895,209
Weighted shares outstanding - basic	79,404,770	81,639,756	79,272,814	81,985,649
Per share:				
Net income available to PLC's common shareowners - basic	\$ 1.30	\$ 0.93	\$ 2.29	\$ 2.14
Calculation of diluted earnings per share:				
Net income available to PLC's common shareowners	\$ 103,199	\$ 76,155	\$ 181,490	\$ 175,176
Weighted shares outstanding - basic	79,404,770	81,639,756	79,272,814	81,985,649
Stock appreciation rights (SARs)(1)	449,726	458,245	444,971	457,880
Issuable under various other stock-based compensation plans	874,019	591,966	843,554	513,674
Restricted stock units	358,723	553,736	336,703	625,822
Weighted shares outstanding - diluted	81,087,238	83,243,703	80,898,042	83,583,025
Per share:				
Net income available to PLC's common shareowners - diluted	\$ 1.27	\$ 0.91	\$ 2.24	\$ 2.10

(1)Excludes 629,800 and 661,645 SARs as of June 30, 2013 and 2012, respectively that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company's earnings per share and will be included in the Company's calculation of the diluted average shares outstanding, for applicable periods.

12. INCOME TAXES

There have been no material changes to the balance of unrecognized tax benefits, where such benefits impacted earnings, for the six months ended June 30, 2013.

In the IRS audit that concluded during the prior year, the IRS proposed favorable and unfavorable adjustments to the Company's 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and is seeking resolution at the IRS Appeals Division. If the IRS prevails at Appeals, and the Company does not litigate these issues, then an acceleration of tax payments will occur. However, if these payments were to occur, they would not materially impact the Company or its effective tax rate.

Table of Contents

The Company believes that it is possible that in the next 12 months approximately \$17 million of these unrecognized tax benefits will be reduced due to the expected closure of the aforementioned Appeals process. In general, this closure would represent the Company's possible successful negotiation of certain issues, coupled with its payment of the assessed taxes on the remaining issues.

The Company used its estimate of its annual 2013 and 2012 income in computing its effective income tax rates for the three and six months ended June 30, 2013 and 2012. The effective tax rates for the three and six months ended June 30, 2013 were 34.3% and 33.9%, respectively, and 29.3% and 32.2% for the three and six months ended June 30, 2012, respectively.

In general, the Company is no longer subject to U.S. federal, state, and local income tax examinations by taxing authorities for tax years that began before 2003.

Based on the Company's current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of June 30, 2013.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

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

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	\$	\$ 1,558,177	\$ 14,062	\$ 1,572,239
Commercial mortgage-backed securities		942,804		942,804
Other asset-backed securities		346,516	576,396	922,912
U.S. government-related securities	1,027,622	148,545		1,176,167
State, municipalities, and political subdivisions		1,333,415	4,330	1,337,745
Other government-related securities		45,685	20,000	65,685
Corporate bonds	206	19,857,780	194,895	20,052,881
Total fixed maturity securities - available-for-sale	1,027,828	24,232,922	809,683	26,070,433
Fixed maturity securities - trading				
Residential mortgage-backed securities		333,246	1,582	334,828
Commercial mortgage-backed securities		171,011		171,011
Other asset-backed securities		89,622	168,851	258,473
U.S. government-related securities	204,785	1,581		206,366
State, municipalities, and political subdivisions		263,675	3,500	267,175
Other government-related securities		57,155		57,155
Corporate bonds		1,552,433	5,092	1,557,525
Total fixed maturity securities - trading	204,785	2,468,723	179,025	2,852,533
Total fixed maturity securities	1,232,613	26,701,645	988,708	28,922,966
Equity securities	342,080	35,020	69,418	446,518
Other long-term investments(1)	69,584	58,499	100,072	228,155
Short-term investments	162,990	9,021		172,011
Total investments	1,807,267	26,804,185	1,158,198	29,769,650
Cash	255,712			255,712
Other assets	9,407			9,407
Assets related to separate accounts				
Variable annuity	11,162,856			11,162,856
Variable universal life	620,429			620,429
Total assets measured at fair value on a recurring basis	\$ 13,855,671	\$ 26,804,185	\$ 1,158,198	\$ 41,818,054
Liabilities:				
Annuity account balances(2)	\$	\$	\$ 114,614	\$ 114,614
Other liabilities (1)	5,482	116,177	335,581	457,240
Total liabilities measured at fair value on a recurring basis	\$ 5,482	\$ 116,177	\$ 450,195	\$ 571,854

(1)Includes certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

Table of Contents

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
--	----------------	----------------	----------------	--------------