PROTECTIVE LIFE CORP
Form 10-Q
November 09, 2007

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2007**

or

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

For the transition period from ________ to _______

Commission File Number **001-11339**

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

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

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

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

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

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

Exchange Act. (Check one):

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

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

Number of shares of Common Stock, $0.50 par value, outstanding as of November 7, 2007: 70,148,063

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

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Dollars In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Revenues				
Premiums and policy fees	$ 676,500	$ 637,457	$ 2,024,682	$ 1,651,362
Reinsurance ceded	(368,878)	(371,688)	(1,162,641)	(960,127)
Net of reinsurance ceded	307,622	265,769	862,041	691,235
Net investment income	428,792	410,746	1,254,910	1,010,545
Realized investment (losses) gains:				
Derivative financial instructions	(37,467)	(55,302)	36,523	(46,764)
All other investments	43,114	78,645	(10,201)	98,461
Other income	51,874	62,355	183,118	164,490
Total revenues	793,935	762,213	2,326,391	1,917,967
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2007 - $360,749; 2006 - $299,119 nine months: 2007 - $1,112,579; 2006 - $846,244)	504,905	488,948	1,431,639	1,174,493
Amortization of deferred policy acquisition costs and value of businesses acquired	73,863	67,199	228,279	151,383
Other operating expenses, net of reinsurance ceded: (three months: 2007 - $62,470; 2006 - $176,894 nine months: 2007 - $209,762; 2006 - $271,888)	107,750	118,168	324,287	290,850
Total benefits and expenses	686,518	674,315	1,984,205	1,616,726
Income before income tax	107,417	87,898	342,186	301,241
Income tax expense	34,425	30,597	113,506	104,862
Net income	$ 72,992	$ 57,301	$ 228,680	$ 196,379
Net income per share - basic	$ 1.03	$ 0.81	$ 3.22	$ 2.77
Net income per share - diluted	$ 1.02	$ 0.80	$ 3.20	$ 2.75
Cash dividends paid per share	$ 0.225	$ 0.215	$ 0.665	$ 0.625
Average share outstanding - basic	71,074,619	70,811,292	71,055,969	70,789,982
Average share outstanding - diluted	71,467,009	71,355,221	71,481,471	71,431,304

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars In Thousands, Except Per Share Amounts)
(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Investments:		
Fixed maturities, at fair market value (amortized cost: 2007 - $22,362,479; 2006 - $21,194,871)	$ 22,278,777	$ 21,367,263
Equity securities, at fair market value (cost: 2007 - $69,960; 2006 - $121,823)	73,237	128,695
Mortgage loans	4,193,776	3,880,028
Investment real estate, net of accumulated depreciation (2007 - $260; 2006 - $5,483)	9,735	38,918
Policy loans	816,958	839,502
Other long-term investments	183,667	310,225
Short-term investments	1,105,393	1,381,073
Total investments	28,661,543	27,945,704
Cash	175,420	69,516
Accrued investment income	277,696	284,529
Accounts and premiums receivable, net of allowance for uncollectible amounts $(2007-3,336;2006-$4,140)	234,351	194,447
Reinsurance receivables	4,956,979	4,618,122
Deferred policy acquisition costs and value of businesses acquired	3,393,961	3,198,735
Goodwill	118,032	100,479
Property and equipment, net of accumulated depreciation (2007 - $108,257; 2006 - $109,718)	42,510	43,796
Other assets	162,930	165,656
Income tax receivable	128,143	116,318
Assets related to separate accounts		
Variable annuity	2,955,534	2,750,129
Variable universal life	354,070	307,863
Total assets	$ 41,461,169	$ 39,795,294
Liabilities		
Policy liabilities and accruals	$ 17,029,708	$ 16,059,930
Stable value product account balances	4,988,787	5,513,464
Annuity account balances	8,882,935	8,958,089
Other policyholders' funds	353,301	328,664
Securities sold under repurchase agreement	144,200	16,949
Other liabilities	1,324,921	1,323,375
Deferred income taxes	439,495	374,486
Non-recourse funding obligations	1,175,000	425,000
Liabilities related to variable interest entities	400,000	420,395
Long-term debt	482,852	479,132
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	2,955,534	2,750,129

Variable universal life	354,070	307,863
	39,055,546	37,482,219
Commitments and contingent liabilities - Note 3		
Share-owners' equity		
Preferred Stock; $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2007 and 2006 - 160,000,000		
shares issued: 2007 and 2006 - 73,251,960	36,626	36,626
Additional paid-in capital	443,912	438,485
Treasury stock, at cost (2007 - 3,104,034 shares; 2006 - 3,287,312 shares)	(11,140)	(11,796)
Unallocated stock in Employee Stock Ownership Plan (2007 - 259,139 shares; 2006 - 366,243 shares)	(852)	(1,231)
Retained earnings	2,022,788	1,838,560
Accumulated other comprehensive income (loss):		
Net unrealized (losses) gains on investments, net of income tax: $ (2007-$(28,241);2006-$22,109)	(48,842)	41,405
Accumulated gain (loss) - hedging, net of income tax: (2007 - $(8,377); 2006 - $(3,179))	(15,096)	(5,954)
Postretirement benefits liability adjustment, net of income tax: (2007 - $(11,724); 2006 - $(12,292))	(21,773)	(23,020)
Total share-owners' equity	2,405,623	2,313,075
	$ 41,461,169	$ 39,795,294

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars In Thousands)
(Unaudited)

	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Cash flows from operating activities		
Net income	$ 228,680	$ 196,379
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) / losses	(26,322)	(51,697)
Amortization of deferred policy acquisition costs and value of business acquired	228,279	151,383
Capitalization of deferred policy acquisition costs	(348,730)	(270,310)
Depreciation expense	5,832	9,943
Deferred income tax	130,010	(32,152)
Accrued income tax	(11,638)	155,127
Interest credited to universal life and investment products	753,170	631,131
Policy fees assessed on universal life and investment products	(423,823)	(342,255)
Change in reinsurance receivables	(338,857)	(396,811)
Change in accrued investment income and other receivables	(33,071)	(11,320)
Change in policy liabilities and other policyholders'	200,778	555,208
Trading securities:		
Maturities and principal reductions of investments	316,189	104,558
Sale of investments	1,605,326	2,487,491
Cost of investments acquired	(2,019,909)	(2,181,807)
Other net change in trading securities	212,076	(153,812)
Change in other liabilities	173,298	84,737
Other, net	(60,041)	495
Net cash provided by operating activities	591,247	936,288
Cash flows from investing activities		
Investments available for sale:		
Maturities and principal reductions of investments		
Fixed maturities	1,007,775	876,495
Equity securities	0	0
Sale of investments		
Fixed maturities	1,682,413	3,868,845
Equity securities	61,547	3,627
Cost of investments acquired		
Fixed maturities	(3,690,327)	(4,314,116)
Equity securities	(1,752)	(3,343)
Mortgage loans:		
New borrowings	(684,495)	(722,318)
Repayments	367,475	357,627
Change in investment real estate, net	36,041	42,258
Change in policy loans, net	22,544	3,616
Change in other long-term investments, net	(1,537)	11,787
Change in short-term investments, net	38,933	(293,606)

Purchase of property and equipment		(12,555)		(4,682)
Sales of property and equipment		4,094		(567,180)
Net cash used in investing activities		(1,169,844)		(740,990)
Cash flows from financing activities				
Borrowings under line of credit arrangements and long-term debt		142,000		141,600
Issuance of capital securities		0		200,000
Principal payments on line of credit arrangement and long-term debt		(138,280)		(153,000)
Net proceeds from securities sold under repurchase agreements		127,251		0
Payments on liabilities related to variable interest entities		(20,395)		(12,337)
Issuance of non-recourse funding obligations		750,000		125,000
Dividends to share owners		(46,598)		(43,679)
Investments product deposits and change in universal life deposits		2,739,113		1,808,908
Investment product withdrawals		(2,773,473)		(2,231,996)
Excess tax benefits on stock based compensation		1,653		2,865
Other financing activities, net		(96,770)		(77,044)
Net cash provided by (used in) financing activities		684,501		(239,683)
Change in cash		105,904		(44,385)
Cash at beginning of period		69,516		83,670
Cash at end of period	$	175,420	$	39,285

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Accounting Pronouncements Recently Adopted

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

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

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

As a result of the implementation of FIN 48, the Company recognized a $0.9 million decrease in the liability for unrecognized income tax benefits, which was accounted for as an increase to the January 1, 2007 retained earnings balance. The Company's liability for all unrecognized income tax benefits as of January 1, 2007 was $23.9 million. If recognized, approximately $3.2 million would be recorded as a component of income tax expense. Using information available as of September 30, 2007, the Company believes it is reasonably possible that in the next 12 months, none of the unrecognized tax benefits will be recognized due to the expiration of the relevant statute of limitations.

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

There has been no significant change to the Company's unrecognized income tax benefits position as of September 30, 2007. During the quarter ended September 30, 2007, the Company released approximately $3.3 million of previously unrecognized tax benefits (including accrued interest), an amount which is immaterial to the Company's financial statements, as a result of the closing of the statute of limitations for the 2003 tax year. The Company's 2004 through 2006 income tax returns remain open to examination by the Internal Revenue Service and major state income taxing jurisdictions.

Accounting Pronouncements Not Yet Adopted

SFAS No. 157 - Fair Value Measurements. In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for the Company on January 1, 2008. The Company is currently evaluating the impact, if any, that SFAS 157 will have on its consolidated results of operations and financial position.

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

Statement of Position 07-1. In September 2007, the AcSEC issued SOP 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide ("AAG"), Audits of Investment Companies. In addition, for such entities, SOP 07-1 provides guidance concerning whether specialized industry accounting principles as set forth in the AAG should be applied by a parent company in consolidation or by an equity method investor in an investment company. The effective date of SOP 07-1 is not clear at this point as the FASB decided to issue a proposed FASB Staff Position that would indefinitely defer the effective date. The Company is currently evaluating the impact, if any, that SOP 07-1 would have on its consolidated results of operations and financial position.

Reclassifications

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior period amounts comparable to those of the current period. Such reclassifications had no effect on previously reported net income or share-owners' equity. Included in these reclassifications is a change in the Consolidated Condensed Statement of Cash Flows to remove the effects of policy fees assessed on universal life and investment products from financing activities. While this had no effect on total cash flow, for the nine months ended September 30, 2006, net cash provided by operating activities was decreased and net cash provided by financing activities was increased by $342.3 million.

2. NON-RECOURSE FUNDING OBLIGATIONS

Non-Recourse Funding Obligations

In July 2007, Golden Gate II Captive Insurance Company ("Golden Gate II"), a special purpose financial captive insurance company wholly owned by Protective Life Insurance Company ("Protective Life"), itself a wholly owned and consolidated subsidiary of the Company, issued $575 million in aggregate principal amount of floating rate surplus notes due July 15, 2052 (the "Notes"). Golden Gate II has received regulatory approval to issue additional series of its floating rate surplus notes up to an aggregate of $675 million principal amount of surplus notes (including the Notes). The Notes are direct financial obligations of Golden Gate II and were issued to fund statutory reserves required by the Valuation of Life Insurance Policies Model Regulation ("Regulation XXX"), as clarified by Actuarial Guideline 38 (commonly known as "AXXX").

Golden Gate II has reinsured from Protective Life certain universal life insurance policies with secondary guarantees on a combination coinsurance and modified coinsurance basis. The Notes were sold for deposit into certain Delaware trusts (the "Trusts") that issued money market securities and term securities that reset relating to money market securities after a specified period (the "Securities"). The holders of Notes cannot require repayment from the Company, Protective Life or any of their affilia