

Bellos Alex
Form 4
April 24, 2018

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

(Print or Type Responses)

1. Name and Address of Reporting Person *
Bellos Alex

(Last) (First) (Middle)

3250 VAN NESS AVE.

(Street)

SAN FRANCISCO, CA 94109

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol

WILLIAMS SONOMA INC [WSM]

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

04/20/2018

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)

PRESIDENT WEST ELM BRAND

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person
 Form filed by More than One Reporting Person

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

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|
| | | | Code | V Amount (A) or (D) Price | | | |
| Common Stock | 04/20/2018 | | M | 653 A \$ 0 | 2,776 | D | |
| Common Stock | 04/20/2018 | | F | 250 ⁽¹⁾ D \$ 49.27 | 2,526 | D | |
| Common Stock | 04/22/2018 | | M | 300 A \$ 0 | 2,826 | D | |
| Common Stock | 04/22/2018 | | F | 115 ⁽¹⁾ D \$ 48.97 | 2,711 | D | |

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

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SEC 1474
(9-02)

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

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | 8. Price or Value of Derivative Security (Instr. 5) |
|--|--|--------------------------------------|--|--------------------------------|---|--|---|---|
| | | | | Code | V (A) (D) | Date Exercisable Expiration Date | Title | Amount or Number of Shares |
| Restricted Stock Units | (2) | 04/20/2018 | | M | 653 | (3) (4) | Common Stock | 653 |
| Restricted Stock Units | (2) | 04/22/2018 | | M | 300 | (5) (4) | Common Stock | 300 |

Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|--|---------------|-----------|--------------------------|-------|
| | Director | 10% Owner | Officer | Other |
| Bellos Alex 3250 VAN NESS AVE. SAN FRANCISCO, CA 94109 | | | PRESIDENT WEST ELM BRAND | |

Signatures

/s/ Phil Louridas, attorney-in-fact for Alex Bellos 04/24/2018

Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Represents the number of shares withheld upon vesting of restricted stock units to cover tax withholding obligations.
- (2) Each restricted stock unit represents a contingent right to receive one share of WSM common stock.

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- (3) The restricted stock units vest in four equal installments on each anniversary of the grant date in 2016, 2017, 2018 and 2019.
- (4) The restricted stock units are cancelled upon vesting and delivery of shares of WSM common stock.
- (5) The restricted stock units vest in four equal installments on each anniversary of the grant date in 2015, 2016, 2017 and 2018.

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268,593

Deferred income taxes

29,808

—

Other liabilities

635,533

380,529

Total liabilities

31,555,951

29,466,040

Stockholders' equity:

Preferred stock, no par value, 2,000,000 shares authorized, 2012 and 2011 no shares issued and outstanding

—

—

Common stock, par value \$1 per share, 125,000,000 shares authorized; issued and outstanding:

2012 - 60,208,754 shares (excluding 5,124,749 treasury shares);

2011 - 57,836,540 shares (excluding 5,616,595 treasury shares)

60,209

57,837

Additional paid-in capital

482,563

Explanation of Responses:

468,281

Unallocated common stock held by ESOP; 2012 - 294,770 shares; 2011 - 336,093 shares
(3,175
)

(3,620
)

Accumulated other comprehensive income
579,872

457,229

Retained earnings
458,182

428,952

Total stockholders' equity
1,577,651

1,408,679

Total liabilities and stockholders' equity
\$
33,133,602

\$
30,874,719

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------|---------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| Traditional life insurance premiums | \$3,248 | \$3,289 | \$6,470 | \$6,205 |
| Annuity product charges | 21,908 | 19,892 | 41,301 | 36,854 |
| Net investment income | 320,259 | 296,878 | 647,169 | 589,006 |
| Change in fair value of derivatives | (150,847) | (22,029) | 108,314 | 126,624 |
| Net realized losses on investments, excluding other than temporary impairment ("OTTI") losses | (611) | (854) | (6,687) | (2,047) |
| OTTI losses on investments: | | | | |
| Total OTTI losses | (375) | (113) | (2,156) | (5,213) |
| Portion of OTTI losses recognized from other comprehensive income | (603) | (2,116) | (1,703) | (3,587) |
| Net OTTI losses recognized in operations | (978) | (2,229) | (3,859) | (8,800) |
| Total revenues | 192,979 | 294,947 | 792,708 | 747,842 |
| Benefits and expenses: | | | | |
| Insurance policy benefits and change in future policy benefits | 2,250 | 2,499 | 4,367 | 4,394 |
| Interest sensitive and index product benefits | 142,733 | 238,420 | 281,856 | 398,085 |
| Amortization of deferred sales inducements | 25,940 | 20,265 | 42,650 | 50,957 |
| Change in fair value of embedded derivatives | (80,989) | (60,963) | 278,077 | 67,340 |
| Interest expense on notes payable | 7,072 | 7,832 | 14,067 | 15,739 |
| Interest expense on subordinated debentures | 3,563 | 3,481 | 7,149 | 6,947 |
| Interest expense on amounts due under repurchase agreements | — | 1 | — | 5 |
| Amortization of deferred policy acquisition costs | 44,848 | 38,862 | 79,132 | 94,085 |
| Other operating costs and expenses | 18,902 | 16,634 | 40,615 | 34,108 |
| Total benefits and expenses | 164,319 | 267,031 | 747,913 | 671,660 |
| Income before income taxes | 28,660 | 27,916 | 44,795 | 76,182 |
| Income tax expense | 9,901 | 9,642 | 15,565 | 26,565 |
| Net income | \$18,759 | \$18,274 | \$29,230 | \$49,617 |
| Earnings per common share | | | | |
| Earnings per common share | \$0.31 | \$0.31 | \$0.49 | \$0.84 |
| Earnings per common share - assuming dilution | \$0.30 | \$0.28 | \$0.46 | \$0.77 |
| Weighted average common shares outstanding (in thousands): | | | | |
| Earnings per common share | 59,943 | 59,504 | 59,822 | 59,344 |
| Earnings per common share - assuming dilution | 64,254 | 65,530 | 64,230 | 65,437 |
| See accompanying notes to unaudited consolidated financial statements. | | | | |

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------|---------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$ 18,759 | \$ 18,274 | 29,230 | 49,617 |
| Other comprehensive income: | | | | |
| Change in net unrealized investment gains/losses (1) | 263,366 | 85,149 | 188,391 | 62,596 |
| Noncredit component of OTTI losses (1) | (99 |) 855 | 290 | 1,499 |
| Other comprehensive income before income tax | 263,267 | 86,004 | 188,681 | 64,095 |
| Income tax effect related to other comprehensive income | (92,142 |) (30,101 |) (66,038 |) (22,433 |
| Other comprehensive income | 171,125 | 55,903 | 122,643 | 41,662 |
| Comprehensive income | \$ 189,884 | \$ 74,177 | \$ 151,873 | \$ 91,279 |

(1) Net of related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs. See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data)

(Unaudited)

| | Common Stock | Additional Paid-in Capital | Unallocated Common Stock Held by ESOP | Accumulated Other Comprehensive Income | Retained Earnings | Total Stockholders' Equity |
|---|-----------------|----------------------------------|--|---|----------------------|----------------------------------|
| Balance at December 31, 2011 | \$57,837 | \$468,281 | \$(3,620) | \$ 457,229 | \$428,952 | \$ 1,408,679 |
| Net income for period | — | — | — | — | 29,230 | 29,230 |
| Other comprehensive income | — | — | — | 122,643 | — | 122,643 |
| Conversion of \$12,554 of subordinated debentures | 1,550 | 10,291 | — | — | — | 11,841 |
| Allocation of 41,323 shares of common stock by ESOP, including excess income tax benefits | — | 22 | 445 | — | — | 467 |
| Share-based compensation, including excess income tax benefits | — | 3,719 | — | — | — | 3,719 |
| Issuance of 822,390 shares of common stock under compensation plans, including excess income tax benefits | 822 | 250 | — | — | — | 1,072 |
| Balance at June 30, 2012 | \$60,209 | \$482,563 | \$(3,175) | \$ 579,872 | \$458,182 | \$ 1,577,651 |
| Balance at December 31, 2010 | \$56,968 | \$454,454 | \$(4,815) | \$ 81,820 | \$349,620 | \$ 938,047 |
| Net income for period | — | — | — | — | 49,617 | 49,617 |
| Other comprehensive income | — | — | — | 41,662 | — | 41,662 |
| Acquisition of 500 shares of common stock | — | (6) | — | — | — | (6) |
| Allocation of 51,189 shares of common stock by ESOP, including excess income tax benefits | — | 69 | 551 | — | — | 620 |
| Share-based compensation, including excess income tax benefits | — | 5,229 | — | — | — | 5,229 |
| Issuance of 864,129 shares of common stock under compensation plans, including excess income tax benefits | 864 | 3,499 | — | — | — | 4,363 |
| Balance at June 30, 2011 | \$57,832 | \$463,245 | \$(4,264) | \$ 123,482 | \$399,237 | \$ 1,039,532 |

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|-------------|
| | 2012 | 2011 |
| Operating activities | | |
| Net income | \$29,230 | \$49,617 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Interest sensitive and index product benefits | 281,856 | 398,085 |
| Amortization of deferred sales inducements | 42,650 | 50,957 |
| Annuity product charges | (41,301) | (36,854) |
| Change in fair value of embedded derivatives | 278,077 | 67,340 |
| Increase in traditional life and accident and health insurance reserves | 12,652 | 45,720 |
| Policy acquisition costs deferred | (186,573) | (222,358) |
| Amortization of deferred policy acquisition costs | 79,132 | 94,085 |
| Provision for depreciation and other amortization | 9,150 | 9,292 |
| Amortization of discounts and premiums on investments | (64,020) | (78,582) |
| Realized gains/losses on investments and net OTTI losses recognized in operations | 10,546 | 10,847 |
| Change in fair value of derivatives | (108,314) | (127,799) |
| Deferred income taxes | (14,249) | (64,332) |
| Share-based compensation | 3,024 | 4,181 |
| Change in accrued investment income | (15,707) | (47,812) |
| Change in income taxes recoverable/payable | (3,493) | (3,308) |
| Change in other assets | (10,077) | 2,182 |
| Change in other policy funds and contract claims | 33,548 | 95,560 |
| Change in collateral held for derivatives | 175,549 | 12,910 |
| Change in other liabilities | (11,421) | (74,889) |
| Other | 164 | 703 |
| Net cash provided by operating activities | 500,423 | 185,545 |
| Investing activities | | |
| Sales, maturities, or repayments of investments: | | |
| Fixed maturity securities - available for sale | 1,423,179 | 3,244,966 |
| Fixed maturity securities - held for investment | 1,688,329 | — |
| Equity securities - available for sale | 5,605 | 2,958 |
| Mortgage loans on real estate | 219,423 | 86,079 |
| Derivative instruments | 110,201 | 275,473 |
| Other investments | 10,362 | 57 |
| Acquisition of investments: | | |
| Fixed maturity securities - available for sale | (3,542,142) | (3,189,624) |
| Fixed maturity securities - held for investment | — | (1,279,831) |
| Mortgage loans on real estate | (152,648) | (296,884) |
| Derivative instruments | (184,709) | (189,759) |
| Other investments | (83,811) | (1,660) |
| Purchases of property, furniture and equipment | (273) | (3,552) |
| Net cash used in investing activities | (506,484) | (1,351,777) |

Explanation of Responses:

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|--|---------------------------|-------------|
| | 2012 | 2011 |
| Financing activities | | |
| Receipts credited to annuity and single premium universal life policyholder account balances | \$1,896,794 | \$2,450,646 |
| Coinsurance deposits | (28,630) | (37,196) |
| Return of annuity policyholder account balances | (848,372) | (898,472) |
| Financing fees incurred and deferred | — | (1,566) |
| Acquisition of common stock | — | (6) |
| Excess tax benefits realized from share-based compensation plans | 693 | 1,117 |
| Proceeds from issuance of common stock | 1,062 | 4,255 |
| Change in checks in excess of cash balance | (12,608) | (828) |
| Net cash provided by financing activities | 1,008,939 | 1,517,950 |
| Increase in cash and cash equivalents | 1,002,878 | 351,718 |
| Cash and cash equivalents at beginning of period | 404,952 | 597,766 |
| Cash and cash equivalents at end of period | \$1,407,830 | \$949,484 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during period for: | | |
| Interest expense | \$14,308 | \$15,210 |
| Income taxes | 32,650 | 93,200 |
| Non-cash operating activity: | | |
| Deferral of sales inducements | 143,248 | 189,200 |
| Non-cash investing activity: | | |
| Real estate acquired in satisfaction of mortgage loans | 11,985 | 6,308 |
| Mortgage loan on real estate sold | — | 1,215 |
| Non-cash financing activities: | | |
| Conversion of subordinated debentures | 12,554 | — |
| See accompanying notes to unaudited consolidated financial statements. | | |

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

1. Significant Accounting Policies

Consolidation and Basis of Presentation

The accompanying consolidated financial statements of American Equity Investment Life Holding Company (“we”, “us” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires the use of management estimates. For further information related to a description of areas of judgment and estimates and other information necessary to understand our financial position and results of operations, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

During 2011, we discovered a prior period error related to policy benefit reserves for our single premium immediate annuity products. Accordingly, we made an adjustment in the first quarter of 2011 which resulted in a decrease of policy benefit reserves and a decrease in interest sensitive and index product benefits of \$4.2 million. On an after-tax basis, the adjustment resulted in a \$2.7 million increase in net income for the six months ended June 30, 2011.

Adopted Accounting Pronouncements

In October 2010, as a result of a consensus of the Financial Accounting Standards Board (“FASB”) Emerging Issues Task Force (EITF), the FASB issued an accounting standards update (ASU) that modifies the definition of the types of costs incurred that can be capitalized in the acquisition of new and renewal insurance contracts. This guidance defines the costs that qualify for deferral as incremental direct costs that result directly from and are essential to successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. In addition, it lists certain costs as deferrable as those that are directly related to underwriting, policy issuance and processing, medical and inspection, and sales force contract selling as deferrable, as well as the portion of an employee's total compensation related directly to time spent performing those activities for actual acquired contracts and other costs related directly to those activities that would not have been incurred if the contract had not been acquired. This amendment to current GAAP became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Other operating costs and expenses for the three and six months ended June 30, 2012, increased \$2.0 million and \$5.0 million, respectively, due to the prospective adoption of this ASU effective January 1, 2012, which decreased net income \$1.3 million and \$3.1 million and decreased diluted earnings per share \$0.02 and \$0.05 for the three and six months ended June 30, 2012, respectively.

In May 2011, the FASB issued an ASU that addresses fair value measurement and disclosure as part of its convergence efforts with the International Accounting Standards Board. The guidance is intended to create common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. This ASU changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Some changes clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The disclosure requirements add information about transfers between Level 1 and Level 2 of the fair value hierarchy, information about the sensitivity of a fair value measurement categorized within Level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair

value of such items is required to be disclosed. This ASU became effective for interim and annual periods beginning after December 15, 2011. See note 2 for disclosures regarding fair value measurements.

In June 2011, the FASB issued an ASU that expands the disclosure requirements related to other comprehensive income (loss). A reporting entity is now required to present the total of comprehensive income (loss), the components of net income, and the components of other comprehensive income (loss) either in a single continuous statement of comprehensive income (loss) or in two separate but consecutive statements. Under both choices, the reporting entity is required to present each component of net income along with total net income, each component of other comprehensive income (loss) along with a total for other comprehensive income (loss) and a total amount for comprehensive income (loss). This ASU became effective for interim and annual periods beginning after December 15, 2011. We have adopted this ASU on January 1, 2012.

New Accounting Pronouncements

There are no accounting standards updates finalized to become effective in the future that will significantly effect our consolidated financial statements.

Significant Accounting Policy - Deferred Policy Acquisition Costs

Our accounting policy for deferred policy acquisition costs which follows, has been updated from our Form 10-K for the year ended December 31, 2011 to reflect the adoption of new accounting standards.

To the extent recoverable from future policy revenues and gross profits, certain incremental direct costs that vary with and are directly related to the production of successful new business are not expensed when incurred but instead are capitalized as deferred policy acquisition costs. Deferred policy acquisition costs are subject to loss recognition testing on a quarterly basis or when an event occurs that may warrant loss recognition. Deferred policy acquisition costs consist primarily of commissions and certain costs of policy issuance.

For annuity products, these capitalized costs are being amortized generally in proportion to expected gross profits from investment spreads, including the cost of hedging the fixed indexed annuity obligations, and, to a lesser extent, from product charges and mortality and expense margins. That amortization is adjusted retrospectively through an unlocking process when estimates of current or future gross profits/margins (including the impact of net realized gains on investments and net OTTI losses recognized in operations) to be realized from a group of products are revised. Deferred policy acquisition costs are also adjusted for the change in amortization that would have occurred if available for sale fixed maturity securities and equity securities had been sold at their aggregate fair value at the end of the reporting period and the proceeds reinvested at current yields. The impact of this adjustment is included in accumulated other comprehensive income (loss) within consolidated stockholders' equity, net of applicable taxes.

2. Fair Values of Financial Instruments

The following sets forth a comparison of the fair values and carrying amounts of our financial instruments:

| | June 30, 2012 | | December 31, 2011 | |
|--|------------------------|--------------|-------------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (Dollars in thousands) | | | |
| Assets | | | | |
| Fixed maturity securities: | | | | |
| Available for sale | \$20,955,231 | \$20,955,231 | \$18,464,109 | \$18,464,109 |
| Held for investment | 1,000,024 | 988,361 | 2,644,206 | 2,644,422 |
| Equity securities, available for sale | 61,441 | 61,441 | 62,845 | 62,845 |
| Mortgage loans on real estate | 2,732,093 | 2,989,626 | 2,823,047 | 3,030,308 |
| Derivative instruments | 476,699 | 476,699 | 273,314 | 273,314 |
| Other investments | 163,367 | 163,243 | 79,109 | 76,648 |
| Cash and cash equivalents | 1,407,830 | 1,407,830 | 404,952 | 404,952 |
| Coinsurance deposits | 2,895,212 | 2,632,861 | 2,818,642 | 2,549,025 |
| Interest rate caps | 3,565 | 3,565 | — | — |
| 2015 notes hedges | 38,181 | 38,181 | 45,593 | 45,593 |
| Liabilities | | | | |
| Policy benefit reserves | 29,598,728 | 24,695,555 | 27,842,770 | 23,407,540 |
| Single premium immediate annuity (SPIA) benefit reserves | 433,335 | 448,702 | 397,248 | 412,998 |
| Notes payable | 303,595 | 398,479 | 297,608 | 376,370 |
| Subordinated debentures | 256,122 | 225,710 | 268,593 | 233,809 |
| 2015 notes embedded derivatives | 38,181 | 38,181 | 45,593 | 45,593 |
| Interest rate swaps | 3,148 | 3,148 | — | — |

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The objective of a fair value measurement is to determine that price for each financial instrument at each measurement date. We meet this objective using various methods of valuation that include market, income and cost approaches.

Explanation of Responses:

We categorize our financial instruments into three levels of fair value hierarchy based on the priority of inputs used in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets or liabilities. The lowest priority inputs (Level 3) are our own assumptions about what a market participant would use in determining fair value such as estimated future cash flows. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. We categorize financial assets and liabilities recorded at fair value in the consolidated balance sheets as follows:

Level 1— Quoted prices are available in active markets for identical financial instruments as of the reporting date. We do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2— Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.

Level 3— Models and other valuation methodologies using significant inputs that are unobservable for financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in Level 3 are securities for which no market activity or data exists and for which we used discounted expected future cash flows with our own assumptions about what a market participant would use in determining fair value.

Transfers of securities among the levels occur at times and depend on the type of inputs used to determine fair value of each security, however there were no transfers between levels during the six months ended June 30, 2012.

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Our assets and liabilities which are measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 are presented below based on the fair value hierarchy levels:

| | Total Fair Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---------------------|---|---|--|
| (Dollars in thousands) | | | | |
| June 30, 2012 | | | | |
| Assets | | | | |
| Fixed maturity securities: | | | | |
| Available for sale: | | | | |
| United States Government full faith and credit | \$5,214 | \$5,214 | \$— | \$— |
| United States Government sponsored agencies | 1,704,516 | — | 1,704,516 | — |
| United States municipalities, states and territories | 3,495,557 | — | 3,495,557 | — |
| Foreign government obligations | 46,186 | — | 46,186 | — |
| Corporate securities | 12,418,135 | 40,979 | 12,377,156 | — |
| Residential mortgage backed securities | 2,524,030 | — | 2,522,025 | 2,005 |
| Other asset backed securities | 761,593 | 384 | 761,209 | — |
| Equity securities, available for sale: finance, insurance and real estate | 61,441 | 42,066 | 19,375 | — |
| Derivative instruments | 476,699 | — | 476,699 | — |
| Cash and cash equivalents | 1,407,830 | 1,407,830 | — | — |
| Interest rate caps | 3,565 | — | 3,565 | — |
| 2015 notes hedges | 38,181 | — | 38,181 | — |
| | \$22,942,947 | \$1,496,473 | \$21,444,469 | \$2,005 |
| Liabilities | | | | |
| Interest rate swaps | \$3,148 | \$— | \$3,148 | \$— |
| 2015 notes embedded derivatives | 38,181 | — | 38,181 | — |
| Fixed index annuities - embedded derivatives | 2,914,948 | — | — | 2,914,948 |
| | \$2,956,277 | \$— | \$41,329 | \$2,914,948 |
| December 31, 2011 | | | | |
| Assets | | | | |
| Fixed maturity securities: | | | | |
| Available for sale: | | | | |
| United States Government full faith and credit | \$4,678 | \$4,678 | \$— | \$— |
| United States Government sponsored agencies | 1,799,779 | — | 1,799,779 | — |
| United States municipalities, states and territories | 3,333,383 | — | 3,333,383 | — |
| Foreign government obligations | 43,228 | — | 43,228 | — |
| Corporate securities | 10,116,361 | 58,827 | 10,057,534 | — |
| Residential mortgage backed securities | 2,703,290 | — | 2,701,192 | 2,098 |
| Other asset backed securities | 463,390 | 370 | 463,020 | — |
| Equity securities, available for sale: finance, insurance and real estate | 62,845 | 44,229 | 18,616 | — |
| Derivative instruments | 273,314 | — | 273,314 | — |
| Cash and cash equivalents | 404,952 | 404,952 | — | — |
| 2015 notes hedges | 45,593 | — | 45,593 | — |
| | \$19,250,813 | \$513,056 | \$18,735,659 | \$2,098 |

Explanation of Responses:

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Liabilities

| | | | | |
|--|-------------|-----|----------|-------------|
| 2015 notes embedded derivatives | \$45,593 | \$— | \$45,593 | \$— |
| Fixed index annuities - embedded derivatives | 2,530,496 | — | — | 2,530,496 |
| | \$2,576,089 | \$— | \$45,593 | \$2,530,496 |

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The following methods and assumptions were used in estimating the fair values of financial instruments during the periods presented in these consolidated financial statements.

Fixed maturity securities and equity securities

The fair values of fixed maturity securities and equity securities in an active and orderly market are determined by utilizing independent pricing services. The independent pricing services incorporate a variety of observable market data in their valuation techniques, including:

- reported trading prices,
- benchmark yields,
- broker-dealer quotes,
- benchmark securities,
- bids and offers,
- credit ratings,
- relative credit information, and
- other reference data.

The independent pricing services also take into account perceived market movements and sector news, as well as a security's terms and conditions, including any features specific to that issue that may influence risk and marketability. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary.

The independent pricing services provide quoted market prices when available. Quoted prices are not always available due to market inactivity. When quoted market prices are not available, the third parties use yield data and other factors relating to instruments or securities with similar characteristics to determine fair value for securities that are not actively traded. We generally obtain one value from our primary external pricing service. In situations where a price is not available from this service, we may obtain further quotes or prices from additional parties as needed. In addition, for our callable United States Government sponsored agencies we obtain two broker quotes and take the average of two broker prices received. Market indices of similar rated asset class spreads are considered for valuations and broker indications of similar securities are compared. Inputs used by the broker include market information, such as yield data and other factors relating to instruments or securities with similar characteristics. Valuations and quotes obtained from third party commercial pricing services are non-binding and do not represent quotes on which one may execute the disposition of the assets.

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis of inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments as of June 30, 2012 and December 31, 2011.

Mortgage loans on real estate

Mortgage loans on real estate are not measured at fair value on a recurring basis. The fair values of mortgage loans on real estate are calculated using discounted expected cash flows using current competitive market interest rates currently being offered for similar loans. The fair values of impaired mortgage loans on real estate that we have considered to be collateral dependent are based on the fair value of the real estate collateral (based on appraised values) less estimated costs to sell. The inputs utilized to determine fair value of all mortgage loans are unobservable market data (competitive market interest rates and appraised property values); therefore, fair value of mortgage loans falls into Level 3 in the fair value hierarchy.

Derivative instruments

The fair values of derivative instruments, primarily call options, are based upon the amount of cash that we will receive to settle each derivative instrument on the reporting date. These amounts are obtained from each of the counterparties using industry accepted valuation models and are adjusted for the nonperformance risk of each counterparty net of any collateral held. Inputs include market volatility and risk free interest rates and are used in income valuation techniques in arriving at a fair value for each option contract. The nonperformance risk for each

counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options purchased to fund our fixed index annuity policy liabilities.

Other investments

None of the financial instruments included in other investments are measured at fair value on a recurring basis. Financial instruments included in other investments are policy loans, an equity method investment and company owned life insurance (COLI). We have not attempted to determine the fair values associated with our policy loans, as we believe any differences between carrying value and the fair values afforded these instruments are immaterial to our consolidated financial position and, accordingly, the cost to provide such disclosure does not justify the benefit to be derived. The fair value of our equity method investment qualifies as a Level 3 fair value and was determined by calculating the present value of future cash flows discounted by a risk free rate, a risk spread and a liquidity discount. The risk spread and liquidity discount are rates determined by our investment professionals and are unobservable market inputs. The fair value of our COLI approximates its cash surrender value. Cash surrender of our COLI is based on the fair value of the underlying assets, whose fair values fall within Level 2 of the fair value hierarchy.

Cash and cash equivalents

Amounts reported in the consolidated balance sheets for these instruments are reported at their historical cost which approximates fair value due to the nature of the assets assigned to this category.

Interest rate swaps and caps

The fair values of our pay fixed/receive variable interest rate swaps and interest rate caps are obtained from third parties and are determined by discounting expected future cash flows using projected LIBOR rates for the term of the swaps and caps.

2015 notes hedges

The fair value of these call options is determined by a third party who applies market observable data such as our common stock price, its dividend yield and its volatility, as well as the time to expiration of the call options to determine a fair value of the buy side of these options.

Policy benefit reserves, coinsurance deposits and SPIA benefit reserves

The fair values of the liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost we would incur to extinguish the liability (i.e., the cash surrender value) as these contracts are generally issued without an annuitization date. The coinsurance deposits related to the annuity benefit reserves have fair values determined in a similar fashion. For period-certain annuity benefit contracts, the fair value is determined by discounting the benefits at the interest rates currently in effect for newly purchased immediate annuity contracts. We are not required to and have not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value. Policy benefit reserves, coinsurance deposits and SPIA benefit reserves are not measured at fair value on a recurring basis. All of the fair values presented within these categories fall within Level 3 of the fair value hierarchy as most of the inputs are unobservable market data.

Notes payable

The fair value of the convertible senior notes is based upon pricing matrices developed by a third party pricing service when quoted market prices are not available and are categorized as Level 2 within the fair value hierarchy. Notes payable are not remeasured at fair value on a recurring basis.

Subordinated debentures

Fair values for subordinated debentures are estimated using discounted cash flow calculations based principally on observable inputs including our incremental borrowing rates, which reflect our credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued. These fair values are categorized as Level 2 within the fair value hierarchy. Subordinated debentures are not measured at fair value on a recurring basis.

2015 notes embedded derivatives

The fair value of this embedded derivative is determined by pricing the call options that hedge this potential liability. The terms of the conversion premium are identical to the 2015 notes hedges and the method of determining fair value of the call options is based upon observable market data.

Fixed index annuities - embedded derivatives

We estimate the fair value of the embedded derivative component of our fixed index annuity policy benefit reserves at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk free interest rates adjusted for our nonperformance risk related to those liabilities. The projections of policy contract values are based on our best estimate assumptions for future policy growth and future policy decrements. Our best estimate assumptions for future policy growth include assumptions for the expected index credit on the next policy anniversary date which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values.

The following tables provide a reconciliation of the beginning and ending balances for our Level 3 assets and liabilities, which are measured at fair value on a recurring basis using significant unobservable inputs for the three and six months ended June 30, 2012 and 2011:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|---------|---------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Dollars in thousands) | | | |
| Available for sale securities | | | | |
| Beginning balance | \$2,027 | \$4,301 | \$2,098 | \$2,702 |
| Principal returned | (52 |) (78 |) (93 |) (266 |
| (Amortization)/accretion of premium/discount | 21 | (4 |) 47 | 8 |
| Reclassification | — | (1,600 |) — | — |
| Total gains (losses) (realized/unrealized): | | | | |
| Included in other comprehensive income (loss) | 81 | 104 | 183 | 279 |
| Included in operations | (72 |) (530 |) (230 |) (530 |
| Ending balance | \$2,005 | \$2,193 | \$2,005 | \$2,193 |

The Level 3 assets included in the table above are not material to our financial position, results of operations or cash flows, and it is management's opinion that the sensitivity of the inputs used in determining the fair value of these assets is not material as well.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-------------|---------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Dollars in thousands) | | | |
| Fixed index annuities - embedded derivatives | | | | |
| Beginning balance | \$2,921,037 | \$2,242,000 | \$2,530,496 | \$1,971,383 |
| Premiums less benefits | 105,279 | 251,733 | 189,505 | 467,676 |
| Change in unrealized gains, net | (111,368 |) (125,200 |) 194,947 | (70,526 |
| Ending balance | \$2,914,948 | \$2,368,533 | \$2,914,948 | \$2,368,533 |

Change in unrealized gains, net for each period in our embedded derivatives are included in change in fair value of embedded derivatives in the unaudited consolidated statements of operations.

Certain derivatives embedded in our fixed index annuity contracts are our most significant financial instrument measured at fair value that are categorized as Level 3 in the fair value hierarchy. The contractual obligations for future annual index credits within our fixed index annuity contracts are treated as a "series of embedded derivatives" over the expected life of the applicable contracts. We estimate the fair value of these embedded derivatives at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk free interest rates adjusted for our nonperformance risk related to those liabilities. The projections of policy contract values are based on our best estimate assumptions for future policy growth and future policy decrements. Our best estimate assumptions for future policy growth include assumptions for the expected index credits on the next policy anniversary date which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values.

The most sensitive assumption in determining policy liabilities for fixed index annuities is the rates used to discount the excess projected contract values. As indicated above, the discount rate reflects our nonperformance risk. If the discount rates used to discount the excess projected contract values at June 30, 2012, were to increase by 100 basis points, the fair value of the embedded derivatives would decrease by \$195.5 million recorded through operations as a decrease in the change in fair value of embedded derivatives and there would be a corresponding decrease of \$117.7 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as an increase in amortization of deferred policy acquisition costs and deferred sales inducements. A decrease by 100 basis points in the discount rate used to discount the excess projected contract values would increase

the fair value of the embedded derivatives by \$218.2 million recorded through operations as an increase in the change in fair value of embedded derivatives and increase our combined balance for deferred policy acquisition costs and deferred sales inducements by \$132.1 million recorded through operations as a decrease in amortization of deferred policy acquisition costs and deferred sales inducements.

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3. Investments

At June 30, 2012 and December 31, 2011, the amortized cost and fair value of fixed maturity securities and equity securities were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|------------------------|------------------------------|-------------------------------|----------------|
| | (Dollars in thousands) | | | |
| June 30, 2012 | | | | |
| Fixed maturity securities: | | | | |
| Available for sale: | | | | |
| United States Government full faith and credit | \$4,589 | \$625 | \$— | \$5,214 |
| United States Government sponsored agencies | 1,678,765 | 26,424 | (673 |) 1,704,516 |
| United States municipalities, states and territories | 3,052,875 | 442,716 | (34 |) 3,495,557 |
| Foreign government obligations | 36,402 | 9,784 | — | 46,186 |
| Corporate securities | 11,166,677 | 1,301,788 | (50,330 |) 12,418,135 |
| Residential mortgage backed securities | 2,407,618 | 170,617 | (54,205 |) 2,524,030 |
| Other asset backed securities | 736,101 | 29,674 | (4,182 |) 761,593 |
| | \$19,083,027 | \$1,981,628 | \$(109,424 |) \$20,955,231 |
| Held for investment: | | | | |
| United States Government sponsored agencies | \$924,015 | \$2,507 | \$— | \$926,522 |
| Corporate security | 76,009 | — | (14,170 |) 61,839 |
| | \$1,000,024 | \$2,507 | \$(14,170 |) \$988,361 |
| Equity securities, available for sale: | | | | |
| Finance, insurance, and real estate | \$53,397 | \$9,347 | \$(1,303 |) \$61,441 |
| December 31, 2011 | | | | |
| Fixed maturity securities: | | | | |
| Available for sale: | | | | |
| United States Government full faith and credit | \$4,084 | \$594 | \$— | \$4,678 |
| United States Government sponsored agencies | 1,780,401 | 19,378 | — | 1,799,779 |
| United States municipalities, states and territories | 2,981,699 | 351,694 | (10 |) 3,333,383 |
| Foreign government obligations | 36,373 | 6,855 | — | 43,228 |
| Corporate securities | 9,117,173 | 1,079,422 | (80,234 |) 10,116,361 |
| Residential mortgage backed securities | 2,618,040 | 157,331 | (72,081 |) 2,703,290 |
| Other asset backed securities | 442,509 | 26,492 | (5,611 |) 463,390 |
| | \$16,980,279 | \$1,641,766 | \$(157,936 |) \$18,464,109 |
| Held for investment: | | | | |
| United States Government sponsored agencies | \$2,568,274 | \$16,806 | \$— | \$2,585,080 |
| Corporate security | 75,932 | — | (16,590 |) 59,342 |
| | \$2,644,206 | \$16,806 | \$(16,590 |) \$2,644,422 |
| Equity securities, available for sale: | | | | |
| Finance, insurance, and real estate | \$58,438 | \$8,752 | \$(4,345 |) \$62,845 |

During the six months ended June 30, 2012 and 2011, we received \$2.8 billion and \$2.9 billion, respectively, in redemption proceeds related to calls of our callable United States Government sponsored agency securities and public and private corporate bonds, of which \$1.7 billion were classified as held for investment for the six months ended June 30, 2012. There were no calls of held for investment securities during the six months ended June 30, 2011. We reinvested the proceeds from these redemptions primarily in United States Government sponsored agencies, corporate securities and other asset backed securities. At June 30, 2012, 33% of our fixed income securities have call features and 1% (\$0.1 billion) were subject to call redemption. Another 14% (\$2.6 billion) will become subject to call

redemption during the next twelve months (principally the last two quarters of 2012 and the second quarter of 2013).

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The amortized cost and fair value of fixed maturity securities at June 30, 2012, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our residential mortgage and other asset backed securities provide for periodic payments throughout their lives and are shown below as separate lines.

| | Available for sale | | Held for investment | |
|--|------------------------|--------------|---------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (Dollars in thousands) | | | |
| Due in one year or less | \$47,272 | \$48,858 | \$— | \$— |
| Due after one year through five years | 590,055 | 656,408 | — | — |
| Due after five years through ten years | 3,449,900 | 3,741,359 | — | — |
| Due after ten years through twenty years | 4,963,113 | 5,413,578 | — | — |
| Due after twenty years | 6,888,968 | 7,809,405 | 1,000,024 | 988,361 |
| | 15,939,308 | 17,669,608 | 1,000,024 | 988,361 |
| Residential mortgage backed securities | 2,407,618 | 2,524,030 | — | — |
| Other asset backed securities | 736,101 | 761,593 | — | — |
| | \$19,083,027 | \$20,955,231 | \$1,000,024 | \$988,361 |

Net unrealized gains on available for sale fixed maturity securities and equity securities reported as a separate component of stockholders' equity were comprised of the following:

| | June 30, 2012 | December 31, 2011 |
|---|------------------------|----------------------|
| | (Dollars in thousands) | |
| Net unrealized gains on available for sale fixed maturity securities and equity securities | \$1,880,248 | \$1,488,237 |
| Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements | (1,022,806) | (819,476) |
| Deferred income tax valuation allowance reversal | 22,534 | 22,534 |
| Deferred income tax benefit | (300,104) | (234,066) |
| Net unrealized gains reported as accumulated other comprehensive income | \$579,872 | \$457,229 |

The National Association of Insurance Commissioners (“NAIC”) assigns designations to fixed maturity securities. These designations range from Class 1 (highest quality) to Class 6 (lowest quality). In general, securities are assigned a designation based upon the ratings they are given by the Nationally Recognized Statistical Rating Organizations (“NRSRO’s”). The NAIC designations are utilized by insurers in preparing their annual statutory statements. NAIC Class 1 and 2 designations are considered “investment grade” while NAIC Class 3 through 6 designations are considered “non-investment grade.” Based on the NAIC designations, we had 98% of our fixed maturity portfolio rated investment grade at June 30, 2012 and December 31, 2011.

The following table summarizes the credit quality, as determined by NAIC designation, of our fixed maturity portfolio as of the dates indicated:

| NAIC Designation | June 30, 2012 | | December 31, 2011 | |
|------------------|------------------------|--------------|-------------------|--------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (Dollars in thousands) | | | |
| 1 | \$13,388,910 | \$14,799,840 | \$14,359,272 | \$15,486,571 |
| 2 | 6,282,280 | 6,758,202 | 4,894,739 | 5,272,759 |
| 3 | 371,555 | 345,380 | 335,642 | 315,406 |
| 4 | 31,828 | 30,224 | 26,674 | 23,989 |
| 5 | 5,528 | 5,783 | 4,932 | 5,756 |
| 6 | 2,950 | 4,163 | 3,226 | 4,050 |
| | \$20,083,051 | \$21,943,592 | \$19,624,485 | \$21,108,531 |

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The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 220 and 246 securities, respectively) have been in a continuous unrealized loss position, at June 30, 2012 and December 31, 2011:

| | Less than 12 months | | 12 months or more | | Total | Unrealized |
|--|------------------------|-------------------|-------------------|-------------------|-------------|-------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Losses |
| | (Dollars in thousands) | | | | | |
| June 30, 2012 | | | | | | |
| Fixed maturity securities: | | | | | | |
| Available for sale: | | | | | | |
| United States Government sponsored agencies | \$227,829 | \$(673) | \$— | \$— | \$227,829 | \$(673) |
| United States municipalities, states and territories | 3,973 | (34) | — | — | 3,973 | (34) |
| Corporate securities: | | | | | | |
| Finance, insurance and real estate | 202,825 | (10,990) | 118,952 | (12,532) | 321,777 | (23,522) |
| Manufacturing, construction and mining | 169,512 | (4,242) | 11,870 | (2,006) | 181,382 | (6,248) |
| Utilities and related sectors | 119,762 | (4,005) | 61,802 | (12,593) | 181,564 | (16,598) |
| Wholesale/retail trade | 14,226 | (763) | 9,700 | (763) | 23,926 | (1,526) |
| Services, media and other | 67,231 | (456) | 18,020 | (1,980) | 85,251 | (2,436) |
| Residential mortgage backed securities | 411,338 | (24,615) | 367,268 | (29,590) | 778,606 | (54,205) |
| Other asset backed securities | 155,929 | (2,120) | 25,486 | (2,062) | 181,415 | (4,182) |
| | \$1,372,625 | \$(47,898) | \$613,098 | \$(61,526) | \$1,985,723 | \$(109,424) |
| Held for investment: | | | | | | |
| Corporate security: | | | | | | |
| Insurance | \$— | \$— | \$61,839 | \$(14,170) | \$61,839 | \$(14,170) |
| Equity securities, available for sale: | | | | | | |
| Finance, insurance and real estate | \$8,922 | \$(1,203) | \$7,900 | \$(100) | \$16,822 | \$(1,303) |
| December 31, 2011 | | | | | | |
| Fixed maturity securities: | | | | | | |
| Available for sale: | | | | | | |
| United States municipalities, states and territories | \$3,535 | \$(10) | \$— | \$— | \$3,535 | \$(10) |
| Corporate securities: | | | | | | |
| Finance, insurance and real estate | 363,909 | (36,575) | 146,354 | (15,611) | 510,263 | (52,186) |
| Manufacturing, construction and mining | 201,762 | (7,131) | 29,875 | (1,869) | 231,637 | (9,000) |
| Utilities and related sectors | 174,251 | (7,576) | 37,778 | (6,946) | 212,029 | (14,522) |
| Wholesale/retail trade | 15,523 | (188) | 9,275 | (1,194) | 24,798 | (1,382) |
| Services, media and other | 27,688 | (249) | 17,105 | (2,895) | 44,793 | (3,144) |
| Residential mortgage backed securities | 295,352 | (19,920) | 709,612 | (52,161) | 1,004,964 | (72,081) |
| Other asset backed securities | 115,542 | (2,863) | 15,550 | (2,748) | 131,092 | (5,611) |
| | \$1,197,562 | \$(74,512) | \$965,549 | \$(83,424) | \$2,163,111 | \$(157,936) |
| Held for investment: | | | | | | |
| Corporate security: | | | | | | |
| Insurance | \$— | \$— | \$59,342 | \$(16,590) | \$59,342 | \$(16,590) |

Explanation of Responses:

Equity securities, available for sale:

| | | | | | | |
|------------------------------------|----------|------------|---------|------------|----------|------------|
| Finance, insurance and real estate | \$20,028 | \$(3,095) | \$3,750 | \$(1,250) | \$23,778 | \$(4,345) |
|------------------------------------|----------|------------|---------|------------|----------|------------|

The following is a description of the factors causing the temporary unrealized losses by investment category as of June 30, 2012:

United States Government sponsored agencies and United States municipalities, states and territories: These securities are relatively long in duration, making the value of such securities sensitive to changes in market interest rates. We purchase these securities regularly over time at different interest rates available at time of purchase; thus, some securities carry yields less than those available at June 30, 2012.

Corporate securities: The unrealized losses in these securities are due partially to the timing of purchases in 2011 and a small number of securities seeing their yield spreads widen due to issuer specific news. In addition, the financial sector credit spreads narrowed from year end 2011 but remain wide as the result of continued economic uncertainty and further concerns around the European Union.

Residential mortgage backed securities: At June 30, 2012, we had no exposure to sub-prime residential mortgage backed securities. All of our residential mortgage backed securities are pools of first-lien residential mortgage loans. Substantially all of the securities that we own are in the most senior tranche of the securitization in which they are structured and are not subordinated to any other tranche. Our "Alt-A" residential mortgage backed securities are comprised of 36 securities with a total amortized cost basis of \$405.0 million and a fair value of \$386.5 million. Despite recent improvements in the capital markets, the fair values of RMBS continue at prices below amortized cost. RMBS prices will likely remain below our cost basis until the housing market is able to absorb current and future foreclosures.

Other asset backed securities: The unrealized losses in these securities are predominantly assigned to financial sector capital trust securities which have longer maturity dates and have declined in price due to prolonged stress in the financial sector. Only one security in an unrealized loss position is rated below investment grade.

Equity securities: Equity securities in an unrealized loss position are in the financial sector and have exposure to the economic uncertainty in the European Union and the United States. A majority of these securities have been in an unrealized loss position for 12 months or more and are investment grade perpetual preferred stocks that are absent credit deterioration. A continued difficult investment environment has raised concerns in regard to earnings and dividend stability in many companies which directly affect the values of these securities.

Approximately 74% and 83% of the unrealized losses on fixed maturity securities shown in the above table for June 30, 2012 and December 31, 2011, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations. All of the securities with unrealized losses, except one security with a principal amount outstanding of \$4.5 million and an unrealized loss of \$0.4 million, are current with respect to the payment of principal and interest.

Changes in net unrealized gains on investments for the three and six months ended June 30, 2012 and 2011 are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|------------|---------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Dollars in thousands) | | | |
| Fixed maturity securities held for investment carried at amortized cost | \$ 1,690 | \$ 55,060 | \$ 11,879 | \$ 29,402 |
| Investments carried at fair value: | | | | |
| Fixed maturity securities, available for sale | \$ 603,462 | \$ 202,827 | \$ 388,374 | \$ 150,683 |
| Equity securities, available for sale | (787 |) 559 | 3,637 | 2,640 |
| | 602,675 | 203,386 | 392,011 | 153,323 |
| Adjustment for effect on other balance sheet accounts: | | | | |
| Deferred policy acquisition costs and deferred sales inducements | (339,408 |) (117,382 |) (203,330 |) (89,228 |
| Change in deferred tax valuation allowance | — | — | — | — |
| Deferred income tax asset | (92,142 |) (30,101 |) (66,038 |) (22,433 |
| | (431,550 |) (147,483 |) (269,368 |) (111,661 |
| Increase in net unrealized gains on investments carried at fair value | \$ 171,125 | \$ 55,903 | \$ 122,643 | \$ 41,662 |

Proceeds from sales of available for sale securities for the six months ended June 30, 2012 and 2011 were \$165.2 million and \$122.2 million, respectively. Scheduled principal repayments, calls and tenders for available for sale securities for the six months ended June 30, 2012 and 2011 were \$1.4 billion and \$3.1 billion, respectively.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Net realized gains (losses) on investments, excluding net OTTI losses for the three and six months ended June 30, 2012 and 2011 are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|------|---------------------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Dollars in thousands) | | | |
| | | | | |

