# 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 September 30, 2011**
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 0-5486**

# Presidential Life Corporation

| | |
|---|---|
| **Delaware** | **13-2652144** |
| (State of incorporation) | (IRS Employer Identification No.) |
| **69 Lydecker Street, Nyack, NY** | **10960** |
| (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code: | **(845) 358-2300** |

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 to 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☑ |
| Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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

The number of shares of registrant's common stock outstanding as of November 2, 2011 was 29,574,697.

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PART 1 - FINANCIAL INFORMATION
PRESIDENTIAL LIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

Item 1. Financial Statements

| | September 30, 2011 (Unaudited) | December 31, 2010 (Audited) |
|---|---|---|
| ASSETS: | | |
| Investments: | | |
| Fixed maturities: | | |
| Available for sale at market (Amortized cost of $3,198,134 and $3,209,803 respectively) | $ 3,521,326 | $ 3,391,998 |
| Common stocks (Cost of $748 and $472, respectively) | 1,229 | 1,279 |
| Derivative instruments, at fair value | 4,051 | 9,402 |
| Real estate | 415 | 415 |
| Policy loans | 18,336 | 19,607 |
| Short-term investments | 145,537 | 107,958 |
| Limited Partnerships | 208,252 | 195,501 |
| Total Investments | 3,899,146 | 3,726,160 |
| Cash and cash equivalents | 3,687 | 5,924 |
| Accrued investment income | 46,063 | 42,757 |
| Deferred policy acquisition costs | 41,709 | 57,298 |
| Furniture and equipment, net | 497 | 376 |
| Amounts due from reinsurers | 18,315 | 16,644 |
| Amounts due from investments transactions | 1,319 | 49,005 |
| Federal income taxes recoverable | - | 2,627 |
| Other assets | 1,391 | 1,495 |
| TOTAL ASSETS | $ 4,012,127 | $ 3,902,286 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Liabilities: | | |
| Policy Liabilities: | | |
| Policyholders' account balances | $ 2,349,930 | $ 2,401,482 |
| Future policy benefits: | | |
| Annuity | 640,911 | 663,456 |
| Life and accident and health | 83,632 | 81,081 |
| Other policy liabilities | 16,089 | 11,718 |
| Total Policy Liabilities | 3,090,562 | 3,157,737 |
| Deposits on policies to be issued | 836 | 1,166 |
| General expenses and taxes accrued | 1,883 | 1,573 |
| Federal income taxes payable | 5,988 | - |
| Deferred federal income taxes, net | 92,166 | 45,157 |
| Amounts due for security transactions | 8,476 | - |
| Other liabilities | 13,723 | 14,745 |
| Total Liabilities | $ 3,213,634 | $ 3,220,378 |
| Commitments and Contingencies | | |
| Shareholders' Equity: | | |
| Capital stock ($.01 par value; authorized 100,000,000 shares outstanding, 29,574,697 and 29,574,697 shares, respectively) | 296 | 296 |
| Additional paid in capital | 7,362 | 7,123 |
| Accumulated other comprehensive gain | 216,320 | 118,609 |
| Retained earnings | 574,515 | 555,880 |
| Total Shareholders' Equity | 798,493 | 681,908 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 4,012,127 | $ 3,902,286 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

PRESIDENTIAL LIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)

| | THREE MONTHS ENDED September 30, (UNAUDITED) | | NINE MONTHS ENDED September 30, (UNAUDITED) | |
|---|---|---|---|---|
| REVENUES: | 2011 | 2010 | 2011 | 2010 |
| Insurance Revenues: | | | | |
| Premiums | $ 4,572 | $ 4,274 | $ 13,533 | $ 13,031 |
| Annuity considerations | 1,586 | 21,114 | 5,983 | 40,267 |
| Universal life and investment type policy fee income | 849 | 528 | 2,647 | 1,587 |
| Equity in earnings (losses) on limited partnerships | 103 | (845) | 2,067 | (6,036) |
| Net investment income | 48,212 | 49,830 | 146,555 | 147,682 |
| Net realized investment gains (losses): | | | | |
| Total Other-than-temporary impairment ("OTTI") losses | (3,971) | - | (10,687) | - |
| OTTI losses recognized in other comprehensive income | 836 | - | 3,924 | - |
| Net OTTI losses recognized in earnings | (3,135) | - | (6,763) | - |
| Net realized capital gains, excluding OTTI losses | 2,215 | 1,807 | 27,626 | 7,921 |
| Other income | 257 | 1,124 | 2,201 | 3,739 |
| TOTAL REVENUES | 54,659 | 77,832 | 193,849 | 208,191 |
| BENEFITS AND EXPENSES: | | | | |
| Death and other life insurance benefits | 4,519 | 4,408 | 13,435 | 13,549 |
| Annuity benefits | 20,426 | 19,991 | 62,284 | 60,670 |
| Interest credited to policyholders' account balances | 25,428 | 26,677 | 76,454 | 79,996 |
| Other interest and other charges | 243 | 319 | 950 | 877 |
| Increase (decrease) in liability for future policy benefits | (6,836) | 15,344 | (21,293) | 18,540 |
| Commissions to agents, net | 700 | 2,117 | 3,064 | 5,578 |
| Costs related to consent revocation solicitation and related matters | - | 297 | - | 1,470 |
| General expenses and taxes | 4,460 | 5,237 | 17,583 | 13,966 |
| Change in deferred policy acquisition costs | 1,295 | 881 | 4,457 | 2,989 |
| TOTAL BENEFITS AND EXPENSES | 50,235 | 75,271 | 156,934 | 197,635 |
| Income before income taxes | 4,424 | 2,561 | 36,915 | 10,556 |
| Provision (benefit) for income taxes: | | | | |
| Current | 16,051 | 181 | 18,341 | 6,565 |
| Deferred | (14,525) | 710 | (5,605) | (2,906) |
| | 1,526 | 891 | 12,736 | 3,659 |
| NET INCOME | $ 2,898 | $ 1,670 | $ 24,179 | $ 6,897 |
| Earnings per common share, basic | $ 0.10 | $ 0.06 | $ 0.82 | $ 0.23 |
| Earnings per common share, diluted | $ 0.10 | $ 0.06 | $ 0.82 | $ 0.23 |
| Weighted average number of shares outstanding during the period, basic | 29,574,697 | 29,574,697 | 29,574,697 | 29,574,697 |
| Weighted average number of shares outstanding during the period, diluted | 29,574,697 | 29,574,697 | 29,574,697 | 29,574,697 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

PRESIDENTIAL LIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(in thousands)
(unaudited)

| **Nine Months Ended September 30, 2010** | Capital stock | Additional paid-in-Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2010 | $ 296 | $ 6,639 | $ 541,734 | $ 32,850 | $ 581,519 |
| Comprehensive Income: | | | | | |
| Net Income | | | 6,897 | | 6,897 |
| Net Unrealized Investment Gains | | | | 148,184 | 148,184 |
| Comprehensive Income | | | | | 155,081 |
| Share Based Compensation | | 413 | | | 413 |
| Dividends paid to Shareholders | | | (5,546) | | (5,546) |
| Balance at September 30, 2010 | $ 296 | $ 7,052 | $ 543,085 | $ 181,034 | $ 731,467 |
| **Nine Months Ended September 30, 2011** | | | | | |
| Balance at January 1, 2011 | $ 296 | $ 7,123 | $ 555,880 | $ 118,609 | $ 681,908 |
| Comprehensive Income: | | | | | |
| Net Income | | | 24,179 | | 24,179 |
| Net Unrealized Investment Gains | | | | 97,711 | 97,711 |
| Comprehensive Income | | | | | 121,890 |
| Share Based Compensation | | 239 | | | 239 |
| Dividends paid to Shareholders | | | (5,544) | | (5,544) |
| Balance at September 30, 2011 | $ 296 | $ 7,362 | $ 574,515 | $ 216,320 | $ 798,493 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

PRESIDENTIAL LIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | NINE MONTHS ENDED SEPTEMBER 30, (UNAUDITED) 2011 | 2010 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net income | $ 24,179 | $ 6,897 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Benefit for deferred income taxes | (5,605) | (2,906) |
| Depreciation and amortization | 95 | 114 |
| Stock option expense | 239 | 413 |
| Amortization of fixed maturity discounts and premiums | (4,565) | (12,153) |
| Equity in (gains) losses on limited partnerships | (2,067) | 6,036 |
| Realized investment gains including OTTI charges | (20,863) | (7,921) |
| Changes in: | | |
| Accrued investment income | (3,306) | (2,587) |
| Deferred policy acquisition costs | 4,457 | 2,989 |
| Federal income tax recoverable | 8,615 | (4,492) |
| Liability for future policy benefits | (20,014) | 19,720 |
| Other items | 2,766 | (1,566) |
| Net Cash (Used in) Provided by Operating Activities | $ (16,069) | $ 4,544 |
| INVESTING ACTIVITIES: | | |
| Fixed Maturities: Available for sale | | |
| Acquisitions | (308,355) | (326,854) |
| Sales and maturities | 326,626 | 170,005 |
| Common Stock: | | |
| Acquisitions | (7,458) | - |
| Sales | 7,752 | - |
| (Increase) decrease in short-term investments and policy loans | (36,308) | 173,159 |
| Limited partnership investments: | | |
| Contributions to limited partnerships | (16,858) | (23,746) |
| Distributions from limited partnerships | 51,534 | 16,716 |
| Amount due on security transactions | 56,162 | 12,497 |
| Net Cash Provided By Investing Activities | $ 73,095 | $ 21,777 |
| FINANCING ACTIVITIES: | | |
| Decrease in policyholders' account balances | (51,552) | (24,704) |
| Bank overdrafts | (1,837) | (2,019) |
| Deposits on policies to be issued | (330) | (982) |
| Dividends paid to shareholders | (5,544) | (5,546) |
| Net Cash Used In Financing Activities | $ (59,263) | $ (33,251) |
| Decrease in Cash and Cash Equivalents | (2,237) | (6,930) |
| Cash and Cash Equivalents at Beginning of Period | 5,924 | 8,763 |
| Cash and Cash Equivalents at End of Period | $ 3,687 | $ 1,833 |
| Supplemental Cash Flow Disclosure: | | |
| Income Taxes Paid | $ 13,957 | $ 11,058 |
| Interest Paid | $ - | $ - |

The accompanying notes are an integral part of these Consolidated Financial Statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Business

Presidential Life Corporation (the "Company"), through its wholly owned subsidiary Presidential Life Insurance Company is engaged in the sale of annuity contracts, life insurance and accident and health insurance. We manage our business and report as a single business segment. We are a Delaware corporation founded in 1965. We are licensed to market our products in all 50 states and the District of Columbia. Unless the context otherwise requires, the "Company," "we," "us," "our" and similar references shall mean Presidential Life Corporation and the Insurance Company, collectively.

### B. Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to stock life insurance companies for interim financial statements and in accordance with the requirements of Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP applicable to stock life insurance companies for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Interim results for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. Management believes that, although the disclosures are adequate, these consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010.

### C. Segment Reporting

The Company has one reportable segment and therefore, no additional disclosures are required in accordance with current FASB guidance. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

We manage and report our business as a single segment in accordance with FASB guidance, which views certain qualitative and quantitative criteria for determining whether different lines of business should be aggregated for financial reporting purposes. Substantially all of the Company's 2011 premiums and deposits received from policyholders are divided between annuities (approximately 68%), life insurance (approximately 21%), and accident and health insurance (approximately 11%). The nature of these product lines is sufficiently similar to permit their aggregation as a single reporting segment.

Approximately 69% of our life insurance liabilities reflect single premium universal life policies, which bear similar economic and business characteristics to our single premium deferred annuity products. Both products are funded by initial single premiums, both maintain accreting fund values credited with interest as earned, both are surrenderable before maturity with surrender charges in the early years and, both are classified within policyholder account balances in the balance sheet. Moreover, the two products generate similar returns to the Company and carry similar risks of early surrender by the product holder. Both are marketed and distributed by the same independent agents. The products are administered and managed within the same administrative facility, with overlapping administrative functions. The products are also directed at a similar market, namely mature consumers seeking financial protection for secure future cash streams for themselves and their heirs and associated tax benefits. The regulatory frameworks for the products are also substantially the same, as both Insurance Company and its independent agents sell these products under single licenses issued by various state insurance departments. The remaining business of the Company is not material to the overall performance of the Company.

### D. Investments

Fixed maturity investments available for sale represent investments that may be sold in response to changes in various economic conditions. These investments are carried at fair value and net unrealized gains (losses), net of the effects of amortization of deferred policy acquisition costs and deferred federal income taxes are credited or charged directly to shareholders' equity, unless a decline in market value is considered to be other than temporary in which case the investment is reduced to its fair value and the portion related to credit loss is recorded in the income statement. Equity securities include common stocks and non-redeemable preferred stocks and are carried at market value, with the related unrealized gains and losses, net of deferred federal income tax effect, if any, charged or credited directly to shareholders' equity, unless a decline in market value is deemed to be other than temporary in which case the investment is reduced to its fair value and the loss is recorded in the income statement. Premium and discounts are amortized/accrued using methods which result in a constant yield over the securities expected lives. Amortization/accrual of premium and discounts on residential and/or commercial mortgage and asset-backed securities incorporate prepayment assumptions to the estimate of the securities expected lives.

Where consolidation is not appropriate, the Company applies the equity method of accounting consistent with ASC 323, *Investments – Equity Method and Joint Ventures*, to limited partnerships in which the Company holds either (a) a five percent or greater interest or (b) less than a five percent interest, but with respect to which partnership the Company has more than virtually no influence over the operating or financial policies of the limited partnership. The Company considers certain qualitative factors in assessing whether it has more than virtually no influence for partnership interests of less than five percent. The Company records realized and unrealized earnings (or losses) of the limited partnerships accounted for under the equity method in net income each period and classifies such income in one line, equity in earnings (losses) on limited partnerships. Generally, the Company records its share of its earnings using a three month lag.

The Company applies the fair value method of accounting consistent with ASC 944, *Financial Services—Insurance*, to those limited partnerships in which the Company holds less than a five percent interest and does not have more than virtually no influence over the operating or financial policies of the limited partnership. The Company recognizes the unrealized change in fair value of a limited partnership interest accounted for under the fair value method as a component of equity (other comprehensive income or loss) each period. Generally, the Company records unrealized changes in fair value using a three month lag. The Company recognizes cash distributions from the limited partnerships accounted for under the fair value method as either a return on capital in earnings or a return of capital that reduces the investment's carrying amount. This distinction is based on whether the cash distribution represents earnings or loss of the investee, or a return of our investment. A cash receipt that does not represent earnings (or loss) of the investee is treated as a return of capital, which the Company records as a reduction of the basis in the investment, rather than as a credit (or charge) to the income statement. Earnings from distributions are classified as realized capital gains or losses in earnings each period.

For all equity investments, if we conclude that an other than temporary impairment has occurred, the carrying value of the equity security is written down to the current fair value, with a corresponding charge to realized gain (loss) in our Consolidated Statements of Income. We base our review on a number of factors including, but not limited to, the severity and duration of the decline in fair value of the equity security as well as the cause of the decline, our ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, any third-party research reports or analysis, and the financial condition and near-term prospects of the security's issuer, taking into consideration the economic prospects of the issuer's industry and geographical location.

When assessing our intent to sell a fixed maturity security or if it is more likely that the Company will be required to sell a fixed maturity security before recovery of its cost basis, we evaluate facts and circumstances such as, but not limited to, decisions to reposition our security portfolio and sale of securities to meet cash flow needs. In order to determine the amount of the credit loss for a fixed maturity security, we calculate the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover. The discount rate is the effective interest rate implicit in the underlying fixed maturity security. The effective interest rate is the original yield or the coupon if the fixed maturity security was previously impaired. If an OTTI exists and we have the intent to sell the security, we conclude that the entire OTTI is credit-related and the amortized cost for the security is written down to current fair value with a corresponding charge to realized loss on our Consolidated Statements of Income. If we do not intend to sell a fixed maturity security or it is not more likely than not we will be required to sell a fixed maturity security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the fixed maturity security (referred to as the credit loss), we conclude that an OTTI has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to realized loss on our Consolidated Statements of Income, as this is also deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded to OCI, as an unrealized OTTI loss on our Consolidated Balance Sheets, as this is considered a noncredit (i.e., recoverable) impairment.

To determine the recovery period of a fixed maturity security, we consider the facts and circumstances surrounding the underlying issuer including, but not limited to, the following:

- Historic and implied volatility of the security;
- Length of time and extent to which the fair value has been less than amortized cost;
- Adverse conditions specifically related to the security or to specific conditions in an industry or geographic area;
- Failure, if any, of the issuer of the security to make scheduled payments; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

For all fixed maturities securities evaluated for OTTI, we consider the timing and amount of the cash flows. When evaluating whether our collateralized mortgage obligations ("CMOs") are other-than-temporarily impaired, we also examine the characteristics of the underlying collateral, such as delinquency, loss severities and default rates, the quality of the underlying borrower, the type of collateral in the pool, the vintage year of the collateral, subordination levels within the structure of the collateral pool, the quality of any credit guarantors, the susceptibility to variability of prepayments, our intent to sell the security and whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost basis. In assessing corporate fixed maturities securities for OTTI, we evaluate the ability of the issuer to meet its debt obligations and the value of the company or specific collateral securing the debt position including the fundamentals of the issuer to determine what we would recover if they were to file bankruptcy versus the price at which the market is trading; fundamentals of the industry in which the issuer operates; expectations regarding defaults and recovery rates; and changes to the rating of the security by a rating agency.

Realized gains and losses on disposals of investments are determined for fixed maturities and equity securities by the specific-identification method.

Investments in short-term securities, which consist primarily of commercial paper and corporate debt issues maturing in less than one year, are recorded at amortized cost, which approximate market. Policy loans are stated at their unpaid principal balance.

The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase.

The Company's investments in real estate consist of two acres of undeveloped land and two buildings in Nyack, New York, which are occupied entirely by the Company. The investments are carried at cost less accumulated depreciation. Both buildings are fully depreciated and have no depreciation expense.

## E. Fair Value Measurements

The following estimated fair value disclosures of financial instruments have been determined using available market information, current pricing information and appropriate valuation methodologies. If quoted market prices were not readily available for a financial instrument, management determined an estimated fair value. Accordingly, the estimates may not be indicative of the amounts the Company could have realized in a market transaction.

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are as follows:

*Level 1*
Observable inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date. Level 1 securities include highly liquid U.S. Treasury securities, certain common stocks and cash and cash equivalents.

*Level 2*
Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. Most debt securities, preferred stocks, certain equity securities, short-term investments and derivatives are model priced using observable inputs and are classified with Level 2.

*Level 3*
Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The Company's Level 3 assets include investments in limited partnerships.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party, nationally recognized pricing service (pricing service). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company secures an estimate of fair value from brokers, when available, who utilize valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. When broker prices are unavailable, the Company prices the securities using either discounted cash-flow models or matrix pricing. The Company's policy is to transfer assets and liabilities into Level 3 when a significant input cannot be corroborated with market observable data. This may include: circumstances in which market activity has dramatically decreased and transparency to underlying inputs cannot be observed, current prices are not available, and substantial price variances in quotations among market participants exist. In certain cases, the inputs used to measure the fair value may fall into levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Company considers factors specific to the asset.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available, and as may be appropriate, for certain security types, such as prepayment, default, and collateral information for the purpose of measuring the fair value of mortgage- and asset-backed securities. The Company will challenge any prices for its investments which are not considered to represent fair value. If a fair value is challenged, the Company will typically obtain a non-binding quote from a broker-dealer; multiple quotations are not typically sought. At September 30, 2011, the Company has not adjusted any pricing provided by pricing service based on the review performed by our investment managers.

Level 3 valuations are generated from techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company’s assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models, spread-based models, and similar techniques, using the best information available in the circumstances.

## F. Deferred Policy Acquisition Costs

The costs of acquiring new business (principally commissions and certain underwriting, agency and policy issue expenses), all of which vary with the production of new business, have been deferred. Deferred policy acquisition costs (“DAC”) are subject to recoverability testing at time of policy issue and loss recognition testing at the end of each year.

For immediate annuities with life contingencies, deferred policy acquisition costs are amortized over the life of the contract in proportion to expected future benefit payments.

For traditional life policies, deferred policy acquisition costs are amortized over the premium paying periods of the related policies using assumptions that are consistent with those used in computing the liability for future policy benefits. Assumptions as to anticipated premiums are estimated at the date of policy issue and are consistently applied during the life of the contracts. For these contracts, the amortization periods generally are for the scheduled life of the policy, not to exceed 30 years.

Deferred policy acquisition costs are amortized over periods ranging from 15 to 25 years for universal life products and investment type products as a constant percentage of estimated gross profits arising principally from surrender charges and interest and mortality margins based on historical and anticipated future experience, updated regularly. The effects of revisions to reflect actual experience on previous amortization of deferred policy acquisition costs, subject to the limitation that the outstanding DAC asset can never exceed the original DAC plus accrued interest, are reflected in earnings in the period estimated gross profits are revised. DAC is also adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized with corresponding credits or charges included in accumulated other comprehensive income. For that portion of the business where acquisition costs are not deferred, (i.e., medical stop loss business) management believes the expensing of policy acquisition costs is immaterial.

## G. Future Policy Benefits

Future policy benefits for traditional life insurance policies are computed using a net level premium method on the basis of actuarial assumptions as to mortality, persistency and interest established at policy issue. Assumptions established at policy issue as to mortality and persistency are based on anticipated experience, which, together with interest and expense assumptions, provide a margin for adverse deviation. Benefit liabilities for deferred annuities during the accumulation period are equal to accumulated contract holders' fund balances and, after annuitization, are equal to the present value of expected future payments.

## H. Policyholders' Account Balances

Policyholders' account balances for universal life and investment type contracts are equal to the policy account values. The policy account values represent an accumulation of gross premium payments plus credited interest, and when applicable, less mortality and expense charges and withdrawals.

## I. Federal Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. The asset and liability method in recording income taxes on all transactions that have been recognized in the financial statements is used. FASB guidance provides that deferred income taxes are adjusted to reflect tax rates at which future tax liabilities or assets are expected to be settled or realized.

**J. Earnings Per Common Share ("EPS")**

Basic EPS is computed based upon the weighted average number of common shares outstanding during the first nine months. Diluted EPS is computed based upon the weighted average number of common shares including contingently issuable shares and other dilutive items. The weighted average number of common shares used to compute diluted EPS for the nine months ended September 30, 2011 and 2010 was 29,574,697 and 29,574,697, respectively. The dilution from the potential exercise of stock options outstanding did not reduce EPS during the nine months ended September 30, 2011 or 2010.

Options totalling 267,515 and 498,684 shares of common stock for the nine months ended September 30, 2011 and September 30, 2010, respectively were not included in the computation of weighted average shares because the impact of these options was antidilutive.

**K. Reclassifications**

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation. There was no effect on net income from the change in presentation.

**L. New Accounting Pronouncements**

For a full discussion of new accounting pronouncements and other regulatory activity and their impact of the Company, please refer to the Company's 2010 Form 10-K/A.

*Deferred Acquisition Costs*

In October 2010, the FASB issued updated guidance to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs. The updated guidance is effective on either a retrospective or prospective basis for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted as of the beginning of a company's annual period. We are currently evaluating the impact of the adoption of this new guidance on our consolidated results of operations and financial condition.

*Repo Accounting*

On April 29, 2011, the FASB amended its guidance on accounting for repurchase agreements. The amendments simplify the accounting by eliminating the requirement that the transferor demonstrate it has adequate collateral to fund substantially all the cost of purchasing replacement assets. Under the amended guidance, a transferor maintains effective control over transferred financial assets (and thus accounts for the transfer as a secured borrowing) if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and if all of the following conditions previously required are met; (i) financial assets to be repurchased or redeemed are the same or substantially the same as those transferred, (ii) repurchase or redemption date before maturity at a fixed or determinable price, and (iii) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. As a result, more arrangements could be accounted for as secured borrowings rather than sales. The updated guidance is effective on a prospective basis for interim and annual reporting periods beginning on or after December 15, 2011, early adoption if prohibited. We are currently evaluating the impact of the adoption of this new guidance on our consolidated results of operations and financial condition.

*Fair Value Measurements*

In May 2011, the FASB issued updated guidance clarifying fair value measurement and disclosure requirements. It is intended to bring consistency to the fair value measurement and disclosure requirements of United States GAAP and International Accounting Standards. This new guidance is effective for interim or annual reporting period beginning after December 15, 2011 and should be applied prospectively. In the period of adoption the Company will be required to disclose a change, if any, in valuation technique and related inputs resulting from the application of the amendments. We are currently assessing the impact of the guidance on the Company's financial position, results of operations, and financial statement disclosures.

*Presentation of Comprehensive Income*

In June 2011, the FASB issued ASU 2011-05, which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. The new guidance is effective for interim or annual reporting period beginning after December 15, 2011 but will not have any impact on the Company's results of operations, financial position or liquidity. Early adoption is permitted.

*Intangibles - Goodwill and Other*

In September 2011, the FASB issued updated guidance that modifies the manner in which the two-step impairment test of goodwill is applied. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, key personnel, strategy, key technology, or customers) that may impact a reporting unit's fair value and lead to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If an entity determines that it is more likely than not, it must perform an impairment test. The first step of the impairment test involves comparing the estimated fair value of a reporting unit to its carrying value, including goodwill. If the carrying value of a reporting unit exceeds the estimated fair value, a second step must be performed to measure the amount of goodwill impairment, if any. In the second step, the implied fair value of the reporting unit's goodwill is determined in the same manner as goodwill is measured in a business combination (i.e., by measuring the fair value of the reporting unit's assets, liabilities and unrecognized intangible assets and determining the remaining amount ascribed to goodwill) and comparing the amount of the implied goodwill to the carrying amount of the goodwill. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. The updated guidance is effective for the quarter ending March 31, 2012. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

*Creditors' Evaluation of Whether a Restructuring is a Troubled Debt Restructuring*

In April 2011, the FASB issued updated guidance to clarify whether a modification or restructuring of a receivable is considered a troubled debt restructuring, i.e., whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties. A modification or restructuring that is considered a troubled debt restructuring will result in the creditor having to account for the receivable as being impaired and will also result in additional disclosure of the creditors' troubled debt restructuring activities. The updated guidance is effective for the quarter ending September 30, 2011 and is to be applied on a retrospective basis to the beginning of the annual period of adoption. The adoption of this guidance did not have an impact on the Company's results of operations, financial position or liquidity.

## 2. INVESTMENTS

There were no investments in any one issuer that totaled 10% or more of Shareholders' Equity as of September 30, 2011.

The following information summarizes the components of net investment income:

| | For the nine months ended September 30, 2011 (in thousands) | For the nine months ended September 30, 2010 (in thousands) |
|---|---|---|
| Fixed maturities | $ 146,255 | $ 148,575 |
| Common stocks | 365 | 386 |
| Short term investments | 199 | 299 |
| Other investment income | 2,441 | 1,931 |
| | 149,260 | 151,191 |
| Less: investment expenses | 2,705 | 3,509 |
| Net investment income | $ 146,555 | $ 147,682 |

| | For the three months ended September 30, 2011 (in thousands) | For the three months ended September 30, 2010 (in thousands) |
|---|---|---|
| Fixed maturities | $ 48,423 | $ 50,229 |
| Common stocks | 7 | 7 |
| Short term investments | 48 | 85 |
| Other investment income | 624 | 468 |
| | 49,102 | 50,789 |
| Less: investment expenses | 890 | 959 |
| Net investment income | $ 48,212 | $ 49,830 |

Net Realized Investment Gains (Losses):

| (in thousands) | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|
| Fixed maturities | $ 7,796 | $ 1,675 |
| Common stocks | 219 | - |
| Limited partnerships | 24,962 | 6,636 |
| Derivatives | (5,351) | (390) |
| Net realized investment gains (losses), excluding OTTI losses | $ 27,626 | $ 7,921 |
| Total OTTI losses recognized in earnings | $ (6,763) | $ - |
| Net realized investment gains (losses), including OTTI losses | $ 20,863 | $ 7,921 |

Net Realized Investment Gains (Losses):

| (in thousands) | Three Months Ended September 30, 2011 | 2010 |
|---|---|---|
| Fixed maturities | $ 1,613 | $ 158 |
| Limited partnerships | 5,290 | 1,649 |
| Derivatives | (4,688) | - |
| Net realized investment gains (losses), excluding OTTI losses | $ 2,215 | $ 1,807 |
| Total OTTI losses recognized in earnings | $ (3,135) | $ - |
| Net realized investment gains (losses), including OTTI losses | $ (920) | $ 1,807 |

The following table presents fair value and gross unrealized losses for fixed maturities and common stock where the estimated fair value had declined and remained below amortized cost at September 30, 2011:

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| Description of Securities | Fair Value | Unrealized Losses | Fair Value (in thousands) | Unrealized Losses | Fair Value | Unrealized Losses |
| US Treasury obligations and direct obligations of US Government Agencies | $ - | $ - | $ 1,812 | $ 226 | $ 1,812 | $ 226 |
| States, municipalities and political subdivision | - | - | 4,212 | 81 | 4,212 | 81 |
| Public Utilities | 432 | 80 | 14,676 | 428 | 15,108 | 508 |
| Mortgage backed securities | 6,652 | 170 | 5,010 | 430 | 11,662 | 600 |
| Corporate Bonds | 131,756 | 6,312 | 102,547 | 11,811 | 234,303 | 18,123 |
| Preferred Stocks | 6,683 | 578 | 33,190 | 6,027 | 39,873 | 6,605 |
| Total Temporarily Impaired Fixed Maturities Securities | $ 145,523 | $ 7,140 | $ 161,447 | $ 19,003 | $ 306,970 | $ 26,143 |
| Common Stock | - | 100 | | | - | 100 |
| Total Temporarily Impaired Securities | 145,523 | 7,240 | 161,447 | 19,003 | 306,970 | 26,243 |

The following table presents the total gross unrealized losses in excess of 12 months for fixed maturities and common stock where the estimated fair value had declined and remained below amortized cost by September 30, 2011:

| # of Issuers | % of Market/Book | Unrealized Loss (In thousands) |
|---|---|---|
| 24 | 90%-99% | $ 3,937 |
| 13 | 80%-89% | 5,318 |
| 7 | 70%-79% | 6,577 |
| 1 | 60%-69% | 739 |
| 1 | 50%-59% | 2,431 |
| 1 | 0%-49% | 1 |
| 47 | | $ 19,003 |

The following table presents the fair value and gross unrealized losses for fixed maturities and common stock where the estimated fair value had declined and remained below amortized cost at December 31, 2010:

| Description of Securities | Less Than 12 Months Fair Value | Less Than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| US Treasury obligations and direct obligations of US Government Agencies | $ - | $ - | $ 1,926 | $ 239 | $ 1,926 | $ 239 |
| States, municipalities and political subdivisions | 117,524 | 4,438 | 5,376 | 113 | 122,900 | 4,551 |
| Public Utilities | 52,541 | 2,030 | 9,201 | 1,761 | 61,742 | 3,791 |
| Mortgage backed securities | - | - | 4,972 | 456 | 4,972 | 456 |
| Corporate Bonds | 196,100 | 7,473 | 181,690 | 20,743 | 377,790 | 28,216 |
| Preferred Stocks | 9,327 | 140 | 46,314 | 6,663 | 55,641 | 6,803 |
| Total Temporarily Impaired Fixed Maturities Securities | $ 375,492 | $ 14,081 | $ 249,479 | $ 29,975 | $ 624,971 | $ 44,056 |

The following table presents the total gross unrealized losses in excess of 12 months for fixed maturities and common stock where the estimated fair value had declined and remained below amortized cost by December 31, 2010.

| # of Issuers | % of Market/Book | Unrealized Loss (In thousands) |
|---|---|---|
| 36 | 90%-99% | $ 6,231 |
| 24 | 80%-89% | 14,212 |
| 6 | 70%-79% | 2,588 |
| 2 | 60%-69% | 3,799 |
| 1 | 50%-59% | 3,144 |
| 1 | 0%-49% | 1 |
| 70 | | $ 29,975 |

As of September 30, 2011 and December 31, 2010, the Company had approximately $349.3 million and $226.3 million, respectively, of gross unrealized gains in fixed maturities. The Company had approximately $323.2 million and $182.2 million of net unrealized gains in fixed maturities as of September 30, 2011 and December 31, 2010, respectively.

**Limited Partnerships:**

The following table presents the carrying value of the limited partnership investments.

| *($ in thousands)* | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Debt/Collateralized bond obligations | $ 675 | $ 3,403 |
| Hedge Related Funds | 31,817 | 40,382 |
| Infrastructure | 25,819 | 20,889 |
| Leveraged buy-out/Merchant | 37,544 | 39,968 |
| Mezzanine and Senior Debt | 1,560 | 1,345 |
| Oil and Gas | 27,092 | 17,083 |
| Real Estate | 31,672 | 25,399 |
| Restructuring | 46,845 | 42,652 |
| Equity Funds | 5,228 | 4,380 |
| | $ 208,252 | $ 195,501 |

The cost basis of the investments in limited partnerships was approximately $172.3 and $181.2 million at September 30, 2011 and December 31, 2010, respectively.

The following table presents the investment activity in the limited partnership investments.

| ($ in thousands) | Equity Method Partnerships | Fair Value Partnerships | Total |
|---|---|---|---|
| Nine Months Ended September 30, 2011 | | | |
| Contributions | $ 3,721 | $ 13,137 | $ 16,858 |
| Equity in earnings (loss) of partnerships | 2,067 | - | 2,067 |
| Realized gains from limited partnerships, net of OTTI | - | 23,607 | 23,607 |
| Change in unrealized gains (losses) reflected in other comprehensive income | - | 21,753 | 21,753 |
| Distributions | (3,318) | (48,216) | (51,534) |
| Change in limited partnerships | 2,470 | 10,281 | 12,751 |
| Limited partnerships, beginning of period | 11,255 | 184,246 | 195,501 |
| Limited partnerships, end of period | $ 13,725 | $ 194,527 | $ 208,252 |
| Nine Months Ended September 30, 2010 | | | |
| Contributions | $ 1,527 | $ 22,219 | $ 23,746 |
| Equity in earnings (loss) of partnerships | (6,036) | - | (6,036) |
| Realized gains from limited partnerships, net of OTTI | - | 6,636 | 6,636 |
| Change in unrealized gains (losses) reflected in other comprehensive income | - | 14,896 | 14,896 |
| Distributions | (1,086) | (14,891) | (15,977) |
| Change in limited partnerships | (5,595) | 28,860 | 23,265 |
| Limited partnerships, beginning of period | 22,301 | 190,406 | 212,707 |
| Limited partnerships, end of period | $ 16,706 | $ 219,266 | $ 235,972 |

| ($ in thousands) | Equity Method Partnerships | Fair Value Partnerships | Total |
|---|---|---|---|
| Three Months Ended September 30, 2011 | | | |
| Contributions | $ 2,211 | $ 4,765 | $ 6,976 |
| Equity in earnings (loss) of partnerships | 103 | - | 103 |
| Realized gains from limited partnerships, net of OTTI | - | 4,875 | 4,875 |
| Change in unrealized gains (losses) reflected in other comprehensive income | - | (20) | (20) |
| Distributions | (299) | (9,539) | (9,838) |
| Change in limited partnerships | 2,015 | 81 | 2,096 |
| Limited partnerships, beginning of period | 11,710 | 194,446 | 206,156 |
| Limited partnerships, end of period | $ 13,725 | $ 194,527 | $ 208,252 |
| Three Months Ended September 30, 2010 | | | |
| Contributions | $ 5 | $ 7,191 | $ 7,196 |
| Equity in earnings (loss) of partnerships | (845) | - | (845) |
| Realized gains from limited partnerships, net of OTTI | - | 1,650 | 1,650 |
| Change in unrealized gains (losses) reflected in other comprehensive income | - | 1,491 | 1,491 |
| Distributions | (394) | (3,716) | (4,110) |
| Change in limited partnerships | (1,234) | 6,616 | 5,382 |
| Limited partnerships, beginning of period | 17,940 | 212,650 | 230,590 |
| Limited partnerships, end of period | $ 16,706 | $ 219,266 | $ 235,972 |

As of September 30, 2011, limited partnerships with a carrying value of $8.4 million and a gross unrealized loss of $2.6 million, have been in an unrealized loss position for under twelve months. Limited partnerships with a carrying value of $3.0 million and a gross unrealized loss of $1.2 million have been in an unrealized loss position for over twelve months.

As of September 30, 2011, the Company was committed to contribute, if called upon, an aggregate of approximately $45.3 million of additional capital to certain of these limited partnerships. Commitments of $26.1 million, $18.1 million and $1.1 million will expire in 2011, 2012 and 2013, respectively. The commitment expirations are estimates based upon the commitment periods of each of the partnerships. Certain partnerships provide, however, that in the event capital from the investments are returned to the limited partners prior to the end of the commitment period (generally 3-5 years) the capital may be recalled.

## 3. FAIR VALUE MEASUREMENTS

The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value:

*Fixed Maturities*

The Company utilizes an independent third party pricing service to estimate fair value measurements for approximately 99% of its fixed maturities. The majority of the remaining fair value measurements are based on non-binding broker prices because either quoted market prices or an estimate from the pricing services are unavailable. The broker prices are based on dealer quotations for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. In general, the Company utilizes one third party pricing service to obtain the market price of each security and utilizes a secondary pricing service to the extent needed. The Company performs an analysis on the prices received from third party security pricing services and independent brokers to ensure that the prices represent a reasonable estimate of the fair value. The Company validates the valuations from its primary pricing source through a variety of procedures that include but are not limited to comparison to additional independent third-party pricing services or brokers, where possible, a review of third party pricing service methodologies, and comparison of prices to actual trades for specific securities where observable data exists. The Company makes no adjustments to the quoted prices. The pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications and models which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. The prices developed is an “evaluated price”, representing a “bid”-side valuation for the security as of 3:00 PM on the closing date of the quarterly financial statements. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios for issues that have early redemption features.

The pricing service evaluates each asset class based on relevant market information, relevant credit information, perceived market movements and sector news. If the pricing service discontinues pricing an investment due to the lack of objectively verifiable data, the Company would be required to produce an estimate of fair value using some of the same methodologies as the pricing service, but would have to make assumptions for market based inputs that are unobservable due to market conditions.

The methodology above is relevant for all fixed maturity securities; following are inputs used in the evaluation process associated with each asset class:

| Asset Class | Input |
|---|---|
| Corporate Bonds (including public utility bonds) | Trades, Bid Price or Spread, Two-sided markets, Quotes, Benchmark Curves including but not limited to Treasury Benchmarks and LIBOR and Swap Curves, Discount Rates, Market Data Feeds such as TRACE trade reports, Financial Statements and Trustee Reports. |
| Municipal Bonds | Trades, Bid Price or Spread, Two-sided markets, Quotes, Benchmark Curves including but not limited to Treasury Benchmarks and LIBOR and Swap Curves, Market Data Feeds such as MSRB, New Issues and Trustee Reports. |

| | |
|---|---|
| Commercial Mortgage Backed Securities (CMBS), Asset Backed Securities (ABS), and Collateralized Debt Obligations (CDO). | Trades, Bid Price or Spread, Two-sided markets, Quotes, Benchmark Curves including but not limited to Treasury Benchmarks and LIBOR and Swap Curves, Discount Rates, Market Data Feeds from commercial vendors, Derivative Indices, Loan Level Information including without limitation loan loss, recovery and default rates, Prepayment Speeds, Trustee Reports, Investor Reports and Servicer Reports. |
| Collateral Mortgage Obligations (CMO's) | Trades, Bid Price or Spread, Two-sided markets, Quotes, Benchmark Curves including but not limited to Treasury Benchmarks and LIBOR and Swap Curves, Discount Rates, Market Data Feeds from commercial vendors, Loan Level Information, Prepayment Speeds, Trustee Reports, Investor Reports and Servicer Reports. |

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value of U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

The Company holds privately placed corporate bonds and estimates the fair value of these bonds using an internal matrix that is based on market information regarding interest rates, credit spreads and liquidity. The underlying source data for calculating the matrix of credit spreads relative to the U.S. Treasury curve are the Merrill Lynch U.S. Corporate Index and the Merrill Lynch High Yield BB Rated Index. The Company includes the fair value estimates of these corporate bonds in Level 2 since all significant inputs are market observable.

The Company holds privately placed securities and estimates the fair value of these securities using either an internal matrix that is based on market information regarding interest rates, credit spreads and liquidity or a discounted cash flow model. The Company includes the fair value estimates of these securities in Level 3.

*Equities*

For public common and preferred stocks, the Company receives prices from a nationally recognized pricing service that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. When current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company, the Company receives an estimate of fair value from the pricing service that provides fair value estimates for the Company’s fixed maturities. The service utilizes some of the same methodologies to price the non-redeemable preferred stocks as it does for the fixed maturities. The Company includes the estimate in the amount disclosed in Level 2.

*Limited partnerships*

The Company initially estimates the fair value of investments in certain limited partnerships by reference to the transaction price. Subsequently, the Company generally obtains the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are generally audited annually. The Company considers observable market data and performs diligence procedures in validating the appropriateness of using the net asset value as a fair value measurement. The remaining carrying value recognized in the consolidated balance sheets represents investments in other limited partnership interests accounted for using the equity method, which do not meet the definition of financial instruments for which fair value is required to be disclosed.

*Derivatives*

Valuations are secured monthly from each Counterparty which is a major money center bank for the three Payor Swaptions owned by the Insurance Company. Factors considered in the valuation include interest rate volatility, decay (remaining life of the Swaption before expiration), delta (duration), gamma (convexity), Swap rates and Swap spreads against U.S. Treasuries. Each dealer has its own proprietary software that evaluates each of these components to determine the Swaption valuation at the end of each month. The Company also obtains a competing valuation from its consultant, Milliman Inc., which uses its own proprietary valuation software called MG Hedge-Information Dashboard. The Company compares the two valuations and generally selects the valuation of the bank, as each Counterparty is responsible for settling for cash with the Company if the Payor Swaption expires with value. All of the factors noted are observable inputs; consequently the Company includes the Swaption Valuations in Level 2.

*Cash and Short-Term Investments*

The market value of cash and short-term investments is estimated to approximate the carrying value.

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

| ($ in thousands) | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| Description | As of September 30, 2011 | Quoted prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Fixed Maturities: | | | | |
| U.S. government and agencies | $ 45,433 | $ 43,352 | $ 1,824 | $ 257 |
| States and municipalities | 349,459 | - | 349,459 | - |
| Corporate debt securities | 2,899,696 | - | 2,861,696 | 38,000 |
| Mortgage backed securities | 136,677 | - | 136,241 | 436 |
| Preferred Stock | 90,061 | - | 90,061 | - |
| Fixed Maturities | 3,521,326 | 43,352 | 3,439,281 | 38,693 |
| Common Stock | 1,229 | 1,013 | 216 | - |
| Derivatives | 4,051 | - | 4,051 | - |
| Cash and cash equivalents | 3,687 | 3,687 | - | - |
| Short-Term investments | 145,537 | - | 145,537 | - |
| Limited partnerships | 194,527 | - | - | 194,527 |
| Total | $ 3,870,357 | $ 48,052 | $ 3,589,085 | $ 233,220 |

| ($ in thousands) | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Description | As of December 31, 2010 | Quoted prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Fixed Maturities: | | | | |
| U.S. government and agencies | $ 167,537 | $ 140,628 | $ 26,651 | $ 258 |
| States and municipalities | 288,738 | - | 283,808 | 4,930 |
| Corporate debt securities | 2,199,986 | - | 2,188,476 | 11,510 |
| Public utilities | 474,318 | - | 474,318 | - |
| Mortgage backed securities | 158,549 | - | 158,549 | - |
| Preferred Stock | 102,870 | - | 99,593 | 3,277 |
| Fixed Maturities | 3,391,998 | 140,628 | 3,231,395 | 19,975 |
| Common Stock | 1,279 | 898 | - | 381 |
| Derivatives | 9,402 | - | 9,402 | - |
| Cash and cash equivalents | 5,924 | 5,924 | - | - |
| Short-Term investments | 107,958 | - | 107,958 | - |
| Limited partnerships | 184,246 | - | - | 184,246 |
| Total | $ 3,700,807 | $ 147,450 | $ 3,348,755 | $ 204,602 |

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs is as follows:

| ($ in thousands) | Limited partnerships | Common Stock | Fixed Maturities | Total |
|---|---|---|---|---|
| **For the nine months ended September 30, 2011** | | | | |
| Beginning Balance at December 31, 2010 | $ 184,246 | $ 381 | $ 19,975 | $ 204,602 |
| Total gains or losses (realized/unrealized) | | | | |
| Included in earnings | - | - | (142) | (142) |
| Realized gains from limited partnerships, net of OTTI | 23,607 | | - | 23,607 |
| Included in other comprehensive income | 21,753 | (204) | (690) | 20,859 |
| Purchases | 13,136 | - | | 13,136 |
| Sales | (48,215) | (177) | (4,171) | (52,563) |
| Transfers in and /or out of Level 3 | - | - | 23,721 | 23,721 |
| Ending Balance at September 30, 2011 | $ 194,527 | $ - | $ 38,693 | $ 233,220 |
| **For the three months ended September 30, 2011** | | | | |
| Beginning Balance at June 30, 2011 | $ 194,446 | $ - | $ 19,884 | $ 214,330 |
| Total gains or losses (realized/unrealized) | | | | |
| Included in earnings | - | - | (142) | (142) |
| Realized gains from limited partnerships, net of OTTI | 5,705 | - | - | 5,705 |
| Included in other comprehensive income | (20) | - | 104 | 84 |
| Purchases | 4,764 | - | - | 4,764 |
| Sales | (9,538) | - | (860) | (10,398) |
| Transfers in and /or out of Level 3 | - | - | 19,707 | 19,707 |
| Ending Balance at September 30, 2011 | $ 195,357 | $ - | $ 38,693 | $ 234,050 |

| | Limited Partnerships | Common Stock | Fixed Maturities | Total |
|---|---|---|---|---|
| **For the nine months ended September 30, 2010** | | | | |
| Beginning Balance at December 31, 2009 | $ 190,406 | $ 1,244 | $ 39,157 | $ 230,807 |
| Total gains or losses (realized/unrealized) | | | | |
| Included in earnings | - | - | (1) | (1) |
| Realized gains from limited partnerships, net of OTTI | 6,636 | - | - | - |
| Included in other comprehensive income | 14,896 | 50 | (1,215) | 13,731 |
| Purchases | 22,219 | - | - | 22,219 |
| Sales | (14,891) | - | (1,936) | (16,827) |
| Transfers in and /or out of Level 3 | - | - | (19,567) | (19,567) |
| Ending Balance at September 30, 2010 | $ 219,266 | $ 1,294 | $ 16,438 | $ 230,362 |
| **For the three months ended September 30, 2010** | | | | |
| Beginning Balance at June 30, 2010 | $ 212,650 | $ 1,231 | $ 17,143 | $ 231,024 |
| Total gains or losses (realized/unrealized) | | | | |
| Included in earnings | - | - | - | - |
| Realized gains from limited partnerships, net of OTTI | 1,650 | - | - | - |
| Included in other comprehensive income | 1,491 | 63 | (80) | 1,474 |
| Purchases | 7,191 | - | - | 7,191 |
| Sales | (3,716) | - | (331) | (4,047) |
| Transfers in and /or out of Level 3 | - | - | (294) | (294) |
| Ending Balance at September 30, 2010 | $ 219,266 | $ 1,294 | $ 16,438 | $ 235,348 |

During the nine months ended September 30, 2011 and 2010, certain fixed maturity securities were transferred in and out of Level 3 from Level 2 as a result of the unavailability or availability of market observable quoted prices received from an independent third-party pricing service.

Investments in limited partnership carried at fair value using net asset value per share

The following table includes information related to the Company's investments in certain other invested assets, including private equity funds and hedge funds that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring or non-recurring basis, the Company uses the net asset value per share as a practical expedient for fair value.

| *(in thousands)* | | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|---|
| **Investment Category** | **Investment Category Includes** | Fair Value Using Net Asset Value | Unfunded Commitments | Fair Value Using Net Asset Value | Unfunded Commitments |
| Restructuring | Securities of companies that are in default, under bankruptcy protection or troubled. | $ 46,846 | 10,778 | $ 42,652 | 13,119 |
| Leveraged buyout | Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired with the use of leverage. | 37,544 | 16,052 | 39,968 | 18,953 |
| Real estate | Real estate assets, real estate joint ventures and real estate operating companies. | 31,672 | 2,451 | 25,399 | 4,245 |
| Infrastructure | Investments in essential public goods and services such as transportation and energy projects with long-term stable cash flows located around the globe. | 25,819 | 6,706 | 20,889 | 10,024 |
| Oil and gas | Equity and equity related investments in the upstream and midstream independent oil and gas sector of North America. | 27,092 | 6,575 | 17,083 | 9,231 |
| Other | Secondary, mezzanine, debt and collateralized bond offerings. | 7,462 | 2,782 | 9,128 | 2,782 |
| Total private equity funds | | 176,435 | 45,344 | 155,119 | 58,354 |
| Hedge distressed | Securities of companies that are in default, under bankruptcy protection or troubled. | 23,501 | - | 20,747 | - |
| Hedge multi-strategy | Pursue multiple strategies i.e. arbitrage, credit, structured credit, long/short equity to reduce risks and reduce volatility. | 8,316 | - | 19,635 | - |
| Total hedge funds | | 31,817 | - | 40,382 | - |
| Total Limited Partnerships | | $ 208,252 | 45,344 | $ 195,501 | 58,354 |

**Fair Values of Derivative Instruments**

| ($ in thousands) | Asset Derivatives | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2011 | | | December 31, 2010 | | |
| | **Balance Sheet Location** | | **Fair Value** | **Balance Sheet Location** | | **Fair Value** |
| Payor Swaptions | Derivative Instruments | $ | 4,051 | Derivative Instruments | $ | 9,402 |
| Total derivatives not designated as hedging instruments | | $ | 4,051 | | $ | 9,402 |
| Total derivatives | | $ | 4,051 | | $ | 9,402 |

| **Derivatives Not Designated as Hedging Instruments** | **Location of Gain or (Loss) Recognized in Income on Derivative** | **Amount of Gain or (Loss) Recognized in Income on Derivative Nine Months Ended September 30,** | | | |
|---|---|---|---|---|---|
| | | | **2011** | | **2010** |
| ($ in thousands) | | | | | |
| Payor Swaptions | Realized investment (losses) gains | $ | (5,351) | $ | (390) |
| Total | | $ | (5,351) | $ | (390) |

The following represents the fair value of financial assets and liabilities that are not required to be carried at fair value as of the dates indicated:

| September 30, 2011 (in thousands) | | **Carrying Value** | | **Estimated Fair Value** |
|---|---|---|---|---|
| *Assets* | | | | |
| Policy Loans | $ | 18,336 | $ | 18,336 |
| Limited Partnerships | | 13,725 | | 13,725 |
| *Liabilities* | | | | |
| Policyholders' Account Balances | $ | 2,349,930 | $ | 2,600,328 |

The following represents the fair value of financial assets and liabilities that are not required to be carried at fair value as of the dates indicated:

| December 31, 2010 (in thousands) | | **Carrying Value** | | **Estimated Fair Value** |
|---|---|---|---|---|
| *Assets* | | | | |
| Policy Loans | $ | 19,607 | $ | 19,607 |
| Limited Partnerships | | 11,255 | | 11,255 |
| *Liabilities* | | | | |
| Policyholders' Account Balances | $ | 2,401,482 | $ | 2,554,161 |

## 4. CHANGE IN NET UNREALIZED INVESTMENT GAINS/(LOSSES)

| | Pre Tax Amount | Tax (Expense)/ Benefit | After-Tax Amount |
|---|---|---|---|
| For the nine months ended September 30, 2011: | | (in thousands) | |
| Net unrealized gains on investment securities: | | | |
| Net unrealized holding gains arising during period | $ 141,558 | $ (49,730) | $ 91,828 |
| Plus: reclassification adjustment for gains realized in net income | 20,862 | (7,302) | 13,560 |
| Change related to deferred policy acquisition costs | (11,811) | 4,134 | (7,677) |
| Net unrealized investment gains | $ 150,609 | $ (52,898) | $ 97,711 |
| For the nine months ended September 30, 2010: | | | |
| Net unrealized gains on investment securities: | | | |
| Net unrealized holding gains arising during period | $ 249,825 | $ (87,439) | $ 162,386 |
| Plus: reclassification adjustment for gains realized in net income | 7,921 | (2,772) | 5,149 |
| Change related to deferred policy acquisition costs | (29,771) | 10,420 | (19,351) |
| Net unrealized investment gains | $ 227,975 | $ (79,791) | $ 148,184 |

## 5. SHAREHOLDERS' EQUITY

During 2010 and the first nine months of 2011, the Board of Directors maintained a quarterly dividend of $.0625 per share. During 2010 and through the first three quarters of 2011, the Company had not purchased or retired shares of its common stock. The Company is authorized pursuant to a resolution of the Board of Directors to purchase 385,000 shares of common stock.

## 6. EMPLOYEE BENEFIT AND DEFERRED COMPENSATION PLANS

**Employee Savings Plan**

The Company adopted an Internal Revenue Code (IRC) Section 401(k) plan for its employees effective January 1, 1992. Under the plan, participants may contribute up to the dollar limit as prescribed by IRC Section 415(d). Beginning January 1, 2010, the Board of Directors approved a 1% increase from 4% to 5% in the Company's contribution. The Company contribution is subject to a vesting schedule and is made for all employees, irrespective of an employee's contribution to the plan. The Company contributed approximately $332,500 and $340,100 into this plan during the nine months ended September 30, 2011 and September 30, 2010, respectively.

## 7. INCOME TAXES

Income taxes represent the net amount of income taxes that the Company expects to pay to or receive from various taxing jurisdictions in connection with its operations. The Company provides for federal and state income taxes currently payable, as well as those deferred due to temporary differences between the financial reporting and tax bases of assets and liabilities. The Company's accounting for income taxes represents management's best estimate of various events and transactions.

Deferred tax assets and liabilities resulting from temporary differences between the financial reporting and tax bases of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, (b) operating loss carry forwards, and (c) a valuation allowance. A significant portion of the deferred tax assets relates to unrealized losses in the Company's bond portfolio. If the Company determines that any of its deferred income tax assets will not result in future tax benefits, a valuation allowance must be established for the portion of these assets that is not expected to be realized. Upon review, the Company's management concluded that it is "more likely than not" that the deferred income tax assets will be realized. The Company does not record a tax valuation allowance relating to the net unrealized losses on investments, excluding stocks, because it is more likely than not that these losses would reverse or be utilized in future periods. The Company has the ability and it is the Company's intent to fully recover the principal, which could allow the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary.

The Company files income tax returns in the United States federal jurisdiction and various state jurisdictions. In the United States, the Company is no longer subject to federal income tax examinations by tax authorities, generally for the years prior to 2006. For 2006 and 2007 the Company may be subject to tax examinations because the IRS and the Company extended the statute of limitations.

In order to calculate income tax expense the Company estimates an annual effective income tax rate based on projected results for the year and applies this projected rate to income before taxes to calculate income tax expense. Any refinements made, due to subsequent information that affects the estimated annual effective income tax rate, are reflected as adjustments in the current period. The Company currently estimates the annual effective income tax rate from continuing operations as of September 30, 2011 to be 34.5%.

The Company applied FASB guidance relating to accounting for uncertainty in income taxes. The balance of the unrecognized tax benefits was $1,011,769 at December 31, 2010 and ($2,271) as of September 30, 2011.

The Company recognizes interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable settlements within income tax expense. The total amount of accrued interest and penalties included in the uncertain tax liability above was $416,729 as of December 31, 2010 and $98,854 as of September 30, 2011.

As of September 30, 2011, the Company is not aware of any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits or liabilities will significantly increase or decrease within the next 12 months.

## 8. COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. As of September 30, 2011, the Company is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**General**

We are engaged in the sale of insurance products including individual annuities, individual life insurance and accident and health insurance. Our revenues are derived primarily from premiums received from the sale of annuity contracts and life, accident and health products, and from gains (net of losses) from our investment portfolio.

Under GAAP, our revenues from the sale of whole life insurance products and annuity contracts with life contingencies are treated differently from our revenues from the sale of annuity contracts without life contingencies, deferred annuities and universal life insurance products. Premiums from the sale of whole life insurance products and life contingent annuities are reported as premium income on our income statement. Premiums from the sale of deferred annuities, universal life insurance products and annuities without life contingencies are not reported as revenues, but rather are reported as additions to policyholders' account balances on our balance sheet. For these products, revenues are recognized over time in the form of policy fee income, surrender charges and mortality and other charges deducted from policyholders' account balances.

The profitability of our individual annuities, individual life insurance and group accident and health products depends largely on the size of our in-force book of business, the adequacy of product pricing and underwriting discipline, and the efficiency of our claim and expense management.

This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements that involve risks and uncertainties. Forward-looking statements reflect management's current expectations of future events, trends or results based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts" and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those set forth in Part I, Item 1A of our 2010 Form 10-K/A, which are incorporated herein by reference, and those discussed in "Risk Factors" under Part II, Item 1A of this Form 10-Q. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

**Executive Overview**

**Results**

Our earnings per share were $ 0.82 for the first nine months of 2011, as compared to $ 0.23 per share for the same period in 2010. The improved results in 2011 primarily reflect increases in the earnings in equity of our limited partnerships and realized investment gains. Our total revenues in the first nine months of 2011 were $ 193.8 million, compared to $ 208.2 million in the first nine months of 2010. Benefits and expenses in the first nine months in 2011 were $ 156.9 million, compared to $ 197.6 million for the same nine month period in 2010. Net income in the first nine months of 2011 was $ 24.2 million as compared to $ 6.9 million for the same period in 2010.

Our earnings per share were $ 0.10 for the three month period ended September 30, 2011, as compared to $ 0.06 per share for the same period in 2010. The improved results in 2011 primarily reflect an increase in the earnings in equity of our limited partnerships and lower general expenses and taxes. Our total revenues in the three month period ended September 30, 2011 were $ 54.7 million, compared to $ 77.8 million in the three month period ended September 30, 2010. Benefits and expenses in the three month period ended September 30, 2011 were $ 50.2 million, compared to $ 75.3 million for the same three month period in 2010. Net income in the three month period ended September 30, 2011 was $ 2.9 million as compared to $ 1.7 million for the same period in 2010.

**Pricing**

Management believes that we are able to offer products at competitive prices to our targeted markets as a result of: (i) maintaining relatively low issuance costs by selling through the independent general agency system; (ii) minimizing home office administrative costs; and (iii) utilizing appropriate underwriting guidelines.

The long-term profitability of sales of life and most annuity products depends on the degree of margin of the actuarial assumptions that underlie the pricing of such products. Actuarial calculations for such products, and the ultimate profitability of sales of such products, are based on four major factors: (i) persistency; (ii) rate of return on cash invested during the life of the policy or contract; (iii) expenses of acquiring and administering the policy or contract; and (iv) mortality.

Persistency is the rate at which insurance policies remain in force, expressed as a percentage of the number of policies remaining in force over the previous year. Policyholders sometimes do not pay premiums/annuity considerations, thus causing their policies/annuity contracts to lapse.

The assumed rate of return on invested cash and desired spreads during the period that insurance policies or annuity contracts are in force also affects pricing of products and currently includes an assumption by the Company of a specified rate of return and/or spread on its investments for each year that such insurance or annuity product is in force.

**Investments**

The Company's principal investments are in fixed maturities, all of which are exposed to at least one of three primary sources of investment risk: credit, interest rate and market valuation. The financial statement risks are those associated with the recognition of impairments and income, as well as the determination of fair values. See Note 2 to the Condensed Consolidated Financial Statements "Investments" for a discussion of the evaluation of available-for-sale securities holdings in accordance with our impairment policy, whereby we evaluate whether such investments are other-than-temporarily impaired ("OTTI") and factors considered by security classification in the OTTI evaluation. In addition, the earnings on certain investments are dependent upon market conditions, which could result in prepayments and changes in amounts to be earned due to changing interest rates or equity markets. The determination of fair values in the absence of quoted market values is based on valuation methodologies, securities the Company deems to be comparable, and assumptions deemed appropriate given the circumstances. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

The Company derives a major portion of its total revenues from investment income. The Company manages most of its investments internally. All investments made on behalf of the Company are governed by the general requirements and guidelines established and approved by the Company's investment committee (the "Investment Committee") and by qualitative and quantitative limits prescribed by applicable insurance laws and regulations. The Investment Committee meets regularly to set and review investment policy and to approve current investment plans. The actions of the Investment Committee are subject to review and approval by the Board of Directors of the Insurance Company. The Company's investment policy must comply with New York State Insurance Department ("NYSID") regulations and the regulations of other applicable regulatory bodies. In October of 2011 the functions of the NYSID and the New York State Banking Department were transferred to the New York State Department of Financial Services; regulations of the NYSID continue to apply.

The Company's investment philosophy generally focuses on purchasing investment grade securities with the intention of holding such securities to maturity. The Company's investment philosophy is focused on the intermediate longer-term horizon and is not oriented towards trading. However, as market opportunities, liquidity, or regulatory considerations may dictate, securities may be sold prior to maturity. The Company has categorized all fixed maturity securities as available for sale and carries such investments at market value.

The Company manages its investment portfolio to meet the diversification, yield and liquidity requirements of its insurance policy and annuity contract obligations. The Company's liquidity requirements are monitored regularly so that cash flow needs are sufficiently satisfied. Adjustments are made periodically to the Company's investment policies to reflect changes in the Company's short and long-term cash needs, as well as changing business and economic conditions.

The Company seeks to manage its investment portfolio in part to reduce its exposure to interest rate fluctuations. In general, the market value of the Company's fixed maturity portfolio increases or decreases in an inverse relationship with fluctuations in interest rates, and the Company's net investment income increases or decreases in direct relationship with interest rate changes. For example, if interest rates decline, the Company's fixed maturity investments generally will increase in market value, while net investment income will decrease as fixed income investments mature or are sold and proceeds are reinvested at the declining rates. If interest rates increase, the Company's fixed maturity investments generally will decrease in market value, while net investment income will generally increase. Management is aware that prevailing market interest rates frequently shift and, accordingly, the Company has adopted strategies that are designed to address either an increase or decrease in prevailing rates.

The primary market risk in the Company's investment portfolio is interest rate risk and to a lesser degree, credit risk. The Company's exposure to foreign exchange risk is not significant. The Company has no direct commodity risk. Changes in interest rates can potentially impact the Company's profitability. In certain scenarios where interest rates are volatile, the Company could be exposed to disintermediation risk and reduction in net interest rate spread or profit margin. (See the discussion below in "Asset/Liability Management" for additional information related to the Company's interest risk and its management.)

**Risk-Based Capital**

Under the National Association of Insurance Commissioner's ("NAIC") risk-based capital formula, insurance companies must calculate and report information under a risk-based capital formula. The standards require the computation of a risk-based capital amount, which then is compared to a company's actual total adjusted capital. The computation involves applying factors to various financial data to address four primary risks: asset default, adverse insurance experience, disintermediation and external events. This information is intended to permit insurance regulators to identify and require remedial action for inadequately capitalized insurance companies, but is not designed to rank adequately capitalized companies. The NAIC formula provides for four levels of potential involvement by state regulators for inadequately capitalized insurance companies, ranging from a requirement for an insurance company to submit a plan to improve its capital (Company Action Level) to regulatory control of the insurance company (Mandatory Control Level). At December 31, 2010, the Insurance Company's Company Action Level was $69.4 million and the Mandatory Control Level was $24.3 million. The Insurance Company's adjusted capital at December 31, 2010 was $312.1 million, which exceeds all four action levels. The Company's RBC ratio as of December 31, 2010 was 449%.

**Agency Ratings**

Ratings are an important factor in establishing the competitive position in the insurance and financial services marketplace. There can be no assurance that the Company's ratings will continue for any given period of time or that they will not be changed. In the event the ratings are downgraded, the level of revenues or the prospects of our business may be adversely impacted.

In June 2011, the A.M. Best Co. upgraded the financial strength rating to "B++" (Good) from "B+" (Good) and issuer credit rating (ICR) to "bbb" from "bbb-" of Presidential Life Insurance Company (Presidential Life) (Nyack, NY). A.M. Best also upgraded the ICR to "bb" from "bb-" of the parent company, Presidential Life Corporation [NASDAQ: PLFE]. A.M. Best's outlook for all ratings is stable.

The rating upgrades reflect Presidential Life's solid capitalization, profitable earnings achieved through strong, albeit volatile, investment income, resolution of litigation issues from prior management and shareholder proxy issues, along with a future business strategy underpinned by growth, which builds on the company's core competencies within the retail insurance annuity business segment.

Partially offsetting these positive rating factors is the Company's concentrated market profile operating as a mono-line insurer writing predominantly fixed annuity business in a limited geographic area with a narrow product offering, continued future investment income volatility due to exposure to the limited partnership investment asset class and execution risks associated with the company's expansion plans.

Despite these concerns, Presidential Life's outlook is reflective of management's ability to manage the company's continued elevated investment risk profile, improving capitalization and A.M. Best's expectation that solid operating performance will be sustained over the near to medium term and will contribute to organic surplus growth.

In evaluating a company's statutory financial and operating performance, A.M. Best reviews the company's profitability, leverage and liquidity, as well as the company's book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its reserves and the experience and competency of its management.

A.M. Best's rating is based on factors which primarily are relevant to policyholders, agents and intermediaries and is not directed towards the protection of investors, nor is it intended to allow investors to rely on such a rating in evaluating the financial condition of the Insurance Company.

**Results of Operations**

A Comparison of the significant items for the nine months ended September 30, 2011 with the same period in 2010 and a comparison of significant items for the three months ended September 30, 2011 with the same period in 2010.

A. Revenues

*Annuity Considerations and Life Insurance Premiums*

Total annuity considerations and life and accident and health insurance premiums decreased from approximately $ 53.3 million for the nine months ended September 30, 2010 to approximately $ 19.5 million for the nine months ended September 30, 2011. Life insurance and accident and health premiums were $ 13.5 million, and $ 13.0 million for the first nine months of 2011 and 2010, respectively. Annuity considerations were approximately $ 6.0 million for the nine months ended September 30, 2011 as compared to approximately $ 40.3 million for the nine months ended September 30, 2010. The decrease is primarily due to decreased sales in our immediate annuities with life contingencies as a result of the low interest rate environment. These amounts do not include consideration from the sales of deferred annuities or immediate annuities without life contingencies. Under GAAP, such sales are reported as additions to policyholder account balances. Consideration from such sales was approximately $40.8 million and $66.2 million in the first nine months of 2011 and 2010, respectively. The decrease was primarily due to the low interest rate environment that continued into 2011.

Total annuity considerations and life and accident and health insurance premiums decreased from approximately $ 25.4 million for the three months ended September 30, 2010 to approximately $ 6.2 million for the three months ended September 30, 2011 as sales of immediate annuities decreased.

*Policy Fee Income*

Universal life and investment type policy fee income was approximately $2.6 million and $1.6 million for the nine months ended September 30, 2011 and 2010, respectively. Policy fee income consists principally of amounts assessed during the period against policyholders' account balances for mortality and surrender charges.

*Net Investment Income and Equity in Earnings on Limited Partnerships*

Net investment income and equity in earnings on limited partnerships totalled approximately $ 148.6 million during the first nine months of 2011, as compared to approximately $ 141.6 million during the first nine months of 2010. This represents an increase of approximately $ 7.0 million.

Income from limited partnerships that are accounted for using the equity method of accounting, amounted to approximately $ 2.1 million during the first nine months of 2011, as compared to a loss of approximately ($6.0) million during the first nine months of 2010. This represents an increase of approximately $ 8.1 million. The decreases and increases in investment income from the limited partnerships accounted for under the equity method principally arise from the inclusion of changes in unrealized gains and losses within earnings.

Net investment income totalled approximately $ 146.6 million during the first nine months of 2011, as compared to approximately $ 147.7 million during the first nine months of 2010. This represents a decrease of approximately $ 1.1 million.

The Company had net investment income and equity in gain (losses) from the limited partnerships of $ 48.3 million and $ 49.0 million for the three month periods ended September 30, 2011 and 2010, respectively. Income included within distributions of the limited partnerships accounted for under the fair value method are classified as realized gains and losses and therefore excluded from net investment income (see below).

The Company's ratios of net investment income to average cash and invested assets (based on book value and excluding equity in earnings of the limited partnerships) for the nine month period ended September 30, 2011 was 5.90% and 5.95% for the nine month period ended September 30, 2010.

*Net Realized Investment Gains and Losses and other than temporary impairment losses recognized in earnings*

Realized investment gains, including OTTI losses, amounted to approximately $ 20.9 million during the first nine months of 2011, as compared to realized investment gains of approximately $ 7.9 million during the first nine months of 2010. The increase of approximately $ 12.9 million was primarily due to an increase in realized gains on fixed maturities and common stocks of approximately $0.9 million, net of write-downs for other than temporary impairments ($5.4 million), and an increase in realized gains in the limited partnerships of approximately $17.0 million, net of write-downs for other than temporary impairments ($1.4 million), principally related to income within distributions of limited partnerships accounted for under fair value, partially offset by an increase in realized losses from payor swaptions of $5.0 million. For the nine months ended September 30, 2010, the Company had no write-downs attributable to other than temporary impairments. During the first nine months of 2011 and 2010, payor swaptions had realized losses of $5.4 million and $0.4 million, respectively. The change in the fair value of the derivative instruments is reflected in the income statement as a realized loss or gain.

The Company had realized investment losses, including OTTI losses, of ($.9) million for the three months ended September 30, 2011 and realized investment gains of $ 1.8 million for the three months ended September 30, 2010. The variance of approximately $ 2.7 million is primarily due to an increase in OTTI losses of approximately $3.1 million when comparing the third quarter of 2011 to the same period in 2010.

B. Benefits and Expenses

*Interest Credited and Benefits to Policyholders*

Interest credited and benefits paid to policyholders amounted to $ 131.8 million in the first nine months of 2011 as compared to $ 173.6 million in the first nine months of 2010. This represents a decrease of approximately 24.1%. This decrease of $41.6 million was primarily due to a decrease in the change in liability for future policy benefits of $39.8 million. The decrease in the liability is primarily due to decreased sales on our immediate annuities during the nine months ended September 30, 2011. For the three month periods ended September 30, interest credited and benefits paid to policyholders decreased from $ 66.7 million in 2010 to $ 43.8 million in the same period of 2011 due to a decrease in the change in liability for future policy benefits.

A significant contributor to the Company's profitability depends, in large part, on the investment returns generated on our portfolio, (excluding our limited partnerships), less what the Company is contractually obligated to credit to our policyholders (this is referred to as "investment spread"). The crediting rate on reserves for the first nine months of 2011 and 2010 was 4.99% and 5.08%, respectively. The actual investment spread for the nine months ended September 30, 2011 and September 30, 2010 was 0.91% and 0.87%, respectively. The investment spread for the three month period ended September 30, 2011 and September 30, 2010 was 0.84% and 0.95%, respectively.

*General Expense, Taxes and Commissions*

General expenses, taxes and commissions to agents totaled approximately $ 20.6 million for the nine months ended September 30, 2011, as compared to approximately $ 19.5 million for the nine months ended September 30, 2010. The increase of $1.1 million consists of an increase in general expenses and taxes of $3.6 million and a decrease in commissions of $2.5 million. The increase in general expenses and taxes is primarily due to an increase in severance costs, the cost of the New York State triennial examination, and legal/accounting expenses associated with the Company's financial restatements. The decline in commissions is due to the decrease in sales in 2011 relative to 2010. General expenses, taxes and commissions to agents totaled approximately $ 5.2 million for the three month period ended September 30, 2011, as compared to approximately $ 7.4 million for the three month period ended September 30, 2010. The decline of $2.2 million is principally due to a decline in commission expense related to lower sales.

*Change in Deferred Policy Acquisition Costs ("DAC")*

The change in the net DAC for the nine months ended September 30, 2011 resulted in a charge of approximately $ 4.5 million, as compared to a charge of approximately $ 3.0 million for the nine months ended September 30, 2010. Changes in DAC consist of the following three elements as summarized below:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2011 | 2010 | 2011 | 2010 |
| Deferred costs associated with product sales | $ (1,184) | $ (1,473) | $ (3,972) | $ (4,655) |
| Amortization of DAC on deferred annuity business | 1,142 | 1,228 | 4,736 | 4,154 |
| Amortization of DAC on the remainder of the Company's business | 1,337 | 1,126 | 3,693 | 3,490 |
| Net change in DAC | $ 1,295 | $ 881 | $ 4,457 | $ 2,989 |

Under applicable accounting rules, DAC related to deferred annuities is amortized in proportion to the estimated gross profits over the estimated lives of the contracts. Essentially, as estimated profits of the Insurance Company related to these assets increase, the amount and timing of amortization is accelerated. The higher level of amortization in the first nine months of 2011 relates primarily to higher net income in 2011 relative to 2010.

C. Income Before Income Taxes

For the reasons discussed above, income before income taxes amounted to approximately $ 36.9 million for the nine months ended September 30, 2011, as compared to approximately $ 10.6 million for the nine months ended September 30, 2010. For the quarters ended September 30, 2011 and 2010, the income before income taxes amounted to approximately $ 4.4 million and $ 2.6 million, respectively.

D. Income Taxes

Income tax expense was approximately $ 12.7 million for the nine months ended September 30, 2011 as compared to $ 3.7 million for the nine months ended September 30, 2010. The income tax expense was approximately $ 1.5 million and $ .9 million for the third quarters of 2011 and 2010, respectively.

In order to calculate income tax expense, the Company estimates an annual effective income tax rate based on projected results for the year and applies this projected rate to income before taxes to calculate income tax expense. Any refinements made, due to subsequent information that affects the estimated annual effective income tax rate, are reflected as adjustments in the current period. The Company currently estimates the annual effective income tax rate from continuing operations as of September 30, 2011 and September 30, 2010 to be 34.5%.

E. Net Income

For the reasons discussed above, the Company had net income of approximately $ 24.2 million during the nine months ended September 30, 2011 and approximately $ 6.9 million during the nine months ended September 30, 2010. The Company had a net income of $ 2.9 million for the three months ended September 30, 2011 and approximately $ 1.7 million for the three months ended September 30, 2010.

**Accumulated Other Comprehensive Income**

Accumulated other comprehensive income increased from a gain of approximately $ 118.6 million at December 31, 2010 to a gain of $ 216.3 million at September 30, 2011. The increase was due to an increase in net unrealized investment gains, net of taxes, during the first nine months of the year of approximately $ 97.7 million. A decline in interest rates was the primary reason for the increase.

The following information summarizes the components of the unrealized investment gains:

| As of<br>*($ in thousands)* | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Fixed maturities | $ 323,192 | $ 182,196 |
| Limited Partnerships | 44,529 | 22,779 |
| Common stocks | 481 | 807 |
| | 368,202 | 205,782 |
| Tax effect | (116,481) | (63,583) |
| Contra DAC effect | (35,401) | (23,590) |
| | $ 216,320 | $ 118,609 |

**Liquidity and Capital Resources**

The Company is an insurance holding company and its primary uses of cash are operating expenses and dividend payments. The Company's principal sources of cash are interest on its investments, dividends from the Insurance Company, and rent from its real estate. During the first three quarters of 2011, the Company's Board of Directors declared quarterly cash dividends of $0.0625 per share payable on April 1, July 1, and October 3, 2011. During the first nine months of 2011, the Company did not purchase or retire any shares of common stock.

The Insurance Company is subject to various regulatory restrictions on the maximum amount of payments, including loans or cash advances, which it may make to the Company without obtaining prior regulatory approval. Under the New York Insurance Law, the Insurance Company is permitted, without prior insurance regulatory clearance, to pay a stockholder dividend to the Company as long as the aggregate amount of all such dividends in any calendar year does not exceed the lesser of (i) 10% of its statutory surplus as of the immediately preceding calendar year or (ii) its net gain from operations for the immediately preceding calendar year (excluding realized capital gains and losses) both on a statutory basis. The Insurance Company will be permitted to pay a stockholder dividend to the Company in excess of the lesser of such two amounts only if it files notice of its intention to declare such a dividend and the amount thereof with the Superintendent and the Superintendent does not disapprove the distribution. Under the New York Insurance Law, the Superintendent has broad discretion in determining whether the financial condition of a stock life insurance company would support the payment of such dividends to its stockholders. The New York State Insurance Department has established informal guidelines for such determinations. The guidelines, among other things, focus on the insurer's overall financial condition and profitability under statutory accounting practices. Management of the Company cannot provide assurance that the Insurance Company will have statutory earnings to support payment of dividends to the Company in an amount sufficient to fund its cash requirements and pay cash dividends or that the Superintendent will not disapprove any dividends that the Insurance Company must submit for the Superintendent's consideration. In 2010, the Insurance Company made $23 million in dividend payments to the Company. In September of 2011 the Insurance Company made a $13 million dividend payment to the Company. The Board of Directors passed a resolution to upstream up to $26.9 million in 2011.

The key need for liquidity in the Insurance Company is the need to fund policy benefit payments on surrendered or expired annuities. Approximately 39.8% of the deferred annuities held by the Company have provisions that allow the purchaser to surrender the policy in exchange for the payment of a surrender fee. In an environment of flat or falling interest rates, surrender activity is generally low, as annuitants prefer to lock in the higher rates obtained. In an environment of rising interest rates, or even in an environment where interest rates are decreasing at the same time surrender charges are expiring, surrender activity would be expected to increase, as investors seek to place their money in higher interest rate instruments. In 2010, annuity surrenders and death claims outpaced new sales causing a minor decline in total annuity inforce. In 2011, the Company believes that surrenders and death claim activity combined with the challenging low interest rate environment for annuity sales, may result in a slight decline in total annuities inforce. Policyholder account balance surrenders totaled approximately $83.4 million and $86.6 million for the nine-month periods ending September 30, 2011 and 2010, respectively. In 2011, approximately 6.2% of account values have expiring surrender charges. This allows the annuitant to terminate or withdraw funds from his or her annuity contract without incurring substantial penalties in the form of surrender charges. The existing surrender charges act as a disincentive to surrender, as the annuitant must take into account the cost of surrender in calculating the likelihood of higher post-surrender returns, although, if interest rates climb sufficiently, such fees may not have a significant deterrent effect. Also, the Company’s ability to increase the interest rate on certain of these policies can act as a disincentive to surrender. On the other hand, a significant reduction in the credited rates at the same time the surrender charge is expiring can result in an increase in surrenders. The Company has operated in the annuity business throughout rising and falling interest rate periods and has consistently managed this business regardless of the rate trends. The Company's ratio of surrenders to average reserves on its deferred annuity business for the first nine months of 2011 is approximately 5.3% on an annualized basis. As of December 31, 2010, the Company’s ratio of surrenders to average reserves on its deferred annuity business was 5.6%.

The Company conducts testing of its cash flow needs based on varying interest rate scenarios. These tests are conducted pursuant to the New York State Insurance Department requirements and are filed with that Department. Recent testing indicates that in a moderately increasing interest rate environment, annuity surrenders would not materially alter the Company's liquidity needs. This is partially due to the fact that the Company's average annuity credited rate is somewhat higher than the market average. The Company's blend of deferred and immediate annuities and its payor swaption investments operate as a buffer to the Company against the impact of interest sensitive surrenders in a possibly rising interest rate environment.

The Company's life and accident and health insurance liabilities are actuarially calculated on a regular basis and the Company is capable of meeting such liabilities. Reserves for such business are carefully monitored and regulated by the New York State Insurance Department. Because life and accident and health insurance products represent a relatively small percentage of the Company's product mix and because the business is heavily reinsured, it is not anticipated that any spike in life and accident and health insurance claims would have a material impact on the Company's liquidity.

The Company does not currently rely on credit facilities to fund its liquidity needs for the payment of policyholder withdrawals or claims and does not anticipate such a need in the coming year. Moreover, based on projected trends within the Company and in the economy as a whole and on the Company's financial condition, the Company does not anticipate the need to liquidate a material amount of its investment portfolio to meet surrender and policy claim liabilities in the coming year.

Principal sources of funds at the Insurance Company are premiums and other considerations paid, contract charges earned, net investment income received and proceeds from investments called, redeemed or sold. The principal uses of these funds are the payment of benefits on life insurance policies and annuity contracts, operating expenses and the purchase of investments. Net cash provided by (used in) the Company's operating activities (reflecting principally: (i) premiums and contract charges collected less (ii) benefits paid on life insurance and annuity products plus (iii) income collected on invested assets, less (iv) commissions and other general expenses paid) was approximately ($16.1) million and $ 4.5 million during the nine months ended September 30, 2011 and 2010, respectively. Net cash provided by the Company's investing activities (principally reflecting investments purchased less investments called, redeemed or sold) was approximately $ 73.1 million, and $ 21.8 million during the nine months ended September 30, 2011 and 2010, respectively.

For purposes of the Company's consolidated statements of cash flows, financing activities relate primarily to sales and surrenders of the Company's universal life insurance and annuity products. The payment of dividends by the Company is also considered to be a financing activity. Net cash used in the Company's financing activities amounted to approximately ($59.3) million and ($33.3) million during the nine months ended September 30, 2011 and 2010, respectively. Under GAAP, consideration from single premium annuity contracts without life contingencies, universal life insurance products and deferred annuities are not reported as premium revenues, but are reported as additions to policyholder account balances, which are liabilities on the Company’s consolidated balance sheet.

Given the Insurance Company's historic cash flow and current financial results, management believes that, for the next twelve months and for the reasonably foreseeable future, the Insurance Company's cash flow from investments and operating activities will provide sufficient liquidity for the operations of the Insurance Company, as well as provide sufficient funds to the Company, so that the Company will be able to pay its other operating expenses. Due to the extraordinary nature of the current economic climate, the Company can make no assurances with respect to the payment of future dividends.

To meet its anticipated liquidity requirements, the Company purchases investments taking into account the anticipated future cash flow requirements of its underlying liabilities. In managing the relationship between assets and liabilities, the Company analyzes the cash flows necessary to correspond with the expected cash needs on the underlying liabilities under various interest rate scenarios. In addition, the Company invests a portion of its total assets in short-term investments, approximately 3.6% and 2.8% as of September 30, 2011 and December 31, 2010, respectively. The Company manages the investment portfolio focusing on duration management to support our current and future liabilities. Through periodic monitoring of the effective duration of the company’s assets and liabilities, the company ensures that the degree of duration mismatch is within the guidelines of the Company’s policy which provides for a mismatch of up to one year. As of September 30, 2011 and December 31, 2010, the effective duration of the Company's fixed income portfolio was approximately 5.9 and 5.6 years, respectively, which was within one year of the Company’s liability duration.

Fixed maturity investments available for sale represent investments that may be sold in response to changes in various economic conditions. These investments are carried at fair value and net unrealized gains (losses), net of the effects of amortization of deferred policy acquisition costs and deferred federal income taxes, if any, are credited or charged directly to shareholders’ equity, unless a decline in market value is considered to be other than temporary in which case the investment is reduced to its fair value and the loss is recorded in the income statement. Equity securities include common stocks and are carried at market value, with the related unrealized gains and losses, net of deferred federal income tax effect, if any, charged or credited directly to shareholders’ equity, unless a decline in market value is deemed to be other than temporary in which case the investment is reduced to its fair value and the loss is recorded in the income statement.

The table below summarizes the credit quality of our fixed maturity securities, excluding preferred stocks, as of September 30, 2011 and December 31, 2010 as rated by Standard and Poor's.

| | As of September 30, 2011 | | As of December 31, 2010 | |
|---|---|---|---|---|
| *($ in thousands)* | Fair Value | % of Fair Value | Fair Value | % of Fair Value |
| US Treasuries | $ 43,352 | 1.3% | $ 161,324 | 4.9% |
| AAA | 155,954 | 4.5% | 158,591 | 4.8% |
| AA | 394,744 | 11.5% | 338,133 | 10.3% |
| A | 1,102,755 | 32.1% | 1,021,868 | 31.1% |
| BBB, BBB+, BBB- | 1,525,054 | 44.4% | 1,384,364 | 42.1% |
| BB, BB+, BB- | 138,926 | 4.0% | 173,888 | 5.3% |
| B | 59,617 | 1.7% | 39,427 | 1.2% |
| CCC, CC, C or lower | 10,864 | 0.3% | 11,533 | 0.3% |
| Total | $ 3,431,266 | 100.0% | $ 3,289,128 | 100.0% |

On a statutory basis, the Insurance Company is subject to Regulation 130 adopted and promulgated by the New York State Insurance Department ("NYSID"). Under this Regulation, the Insurance Company's ownership of below investment grade debt securities is limited to 20.0% of total admitted assets, as calculated under statutory accounting practices. As of September 30, 2011 and December 31, 2010, approximately 4.8% of the Insurance Company's total admitted assets were invested in below investment grade debt securities.

Investments in below investment grade securities have different risks than investments in corporate debt securities rated investment grade. Risk of loss upon default by the borrower is significantly greater with respect to below investment grade securities than with other corporate debt securities because below investment grade securities generally are unsecured and often are subordinated to other creditors of the issuer. Also, issuers of below investment grade securities usually have high levels of indebtedness and often are more sensitive to adverse economic conditions, such as recession or increasing interest rates, than are investment grade issuers. Typically, there is only a thinly traded market for such securities and recent market quotations may not be available for some of these securities. Market quotes generally are available only from a limited number of dealers and may not represent firm bids of such dealers or prices for actual sales. The Company attempts to reduce the overall risk in its below investment grade portfolio, as in all of its investments, through careful credit analysis, investment policy limitations, and diversification by company and by industry. Below investment grade debt investments, as well as other investments, are being monitored on an ongoing basis.

As of September 30, 2011, the carrying value of the Company's limited partnerships was approximately $208.2 million or 5.9% of the Company's total invested assets. Pursuant to NYSID regulations, the Company's investments in equity securities, including limited partnership interests, may not exceed 20% of the Company's total invested assets. At September 30, 2011, the Company's investments in equity securities, including limited partnership interests, were approximately 5.9% of the Company's total invested assets. Such investments are included in the Company's consolidated balance sheet under the heading "Limited partnerships" The Company is committed, if called upon during a specified period, to contribute an aggregate of approximately $45.3 million of additional capital to certain of these limited partnerships. However, management does not expect the entire amount to be drawn down, as certain of these limited partnerships are nearing the end of the period during which investors are required to make contributions. Commitments of $26.1 million, $18.1 million and $1.1 million will expire in 2011, 2012 and 2013, respectively. The commitment expirations are estimates based upon the commitment periods of each of the partnerships. Certain partnerships provide, however, that in the event capital from the investments is returned to the limited partners prior to the end of the commitment period (generally 3-5 years) the capital may be recalled. In general, risks associated with such limited partnerships include those related to their underlying investments (i.e., equity securities, debt securities and real estate), plus a level of illiquidity, which is mitigated by the ability of the Company to typically take quarterly distributions (to the extent that distributions are available) of partnership earnings, except for hedge fund limited partnerships. There can be no assurance that the Company will continue to achieve the same level of returns on its investments in limited partnerships as it has historically or that the Company will achieve any returns on such investments at all. Further, there can be no assurance that the Company will receive a return of all or any portion of its current or future capital investments in limited partnerships. The failure of the Company to receive the return of a material portion of its capital investments in limited partnerships, or to achieve historic levels of return on such investments, could have a material adverse effect on the Company's financial condition and results of operations.

All 50 states of the United States and the District of Columbia have insurance guaranty fund laws requiring all life insurance companies doing business within the jurisdiction to participate in guaranty associations that are organized to pay contractual obligations under insurance policies (and certificates issued under group insurance policies) issued by impaired or insolvent life insurance companies. These associations levy assessments (up to prescribed limits) on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired or insolvent insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. These assessments may be deferred or forgiven under most guaranty laws if they would threaten an insurer's solvency. The amount of these assessments in prior years has not been material. However, the amount and timing of any future assessment on the Insurance Company under these laws cannot be reasonably estimated and are beyond the control of the Company and the Insurance Company.

**Market Risk**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded.

We believe that a portfolio composed principally of fixed-rate investments that generate predictable rates of return should back our fixed-rate liabilities. We do not have a specific target rate of return. Instead, our rates of return vary over time depending on the current interest rate environment, the slope of the yield curve, the spread at which fixed-rate investments are priced over the yield curve, and general economic conditions. Our portfolio strategy is designed to achieve adequate risk-adjusted returns consistent with our investment objectives of effective asset-liability matching, liquidity and safety.

The market value of the Company's fixed maturity portfolio changes as interest rates change. In general, rate decreases causes asset prices to rise, while rate increases causes asset prices to fall.

**Asset/Liability Management**

A persistent focus of the Insurance Company's management is maintaining the appropriate balance between the duration of its invested assets and the duration of its contractual liabilities to its annuity holders and credit suppliers. Towards this end, at least quarterly, the investment department of the Company determines the duration of the Company's invested assets in coordination with the Company's actuaries, who are responsible for calculating the liability duration. In the event it is determined that the duration gap between its assets and liabilities exceeds a one year target level, the Company may re-position its assets through the sale of invested assets or the purchase of new investments.

As an element of its asset liability management strategy, the Company has utilized hedges against the risks posed by a rapid and sustained rise in interest rates by entering into a form of derivative transaction known as Payor Swaptions. Swaptions are options to enter into an interest rate swap arrangement with a Counterparty (major money-center U.S. bank) at a specified future date. At expiration, the Counterparty would be required to pay the Insurance Company the amount of the present value of the difference between the fixed rate of interest on the swap agreement and a specified strike rate in the agreement multiplied by the notional amount of the swap agreement. The total notional amount of the three payor swaptions at September 30, 2011 was $221.5 million and the Swaptions expire annually from January 2015 through 2017. The effect of these transactions would be to lessen the negative impact on the Insurance Company of a significant and prolonged increase in interest rates. With the Swaptions, the Company should be able to maintain more competitive crediting rates to policyholders when interest rates rise.

The Company has determined that the Payor Swaptions represent a "non-qualified hedge". These investments are classified on the balance sheet as "Derivative Instruments". The value of the Payor Swaptions is recognized at "fair value" (market value), with any change in fair value reflected in the income statement as a realized gain or loss. The market value of the Payor Swaptions totalled $4,050,959 at September 30, 2011. This represented a decline in market value since December 31, 2010 of $5,350,924.

The Company conducts periodic cash flow tests assuming different interest rates scenarios in order to demonstrate the reserve adequacy. If a test reveals a potential deficiency, the Company may be required to increase its reserves to satisfy its statutory accounting requirements. Based on testing as of December 31, 2010, the Insurance Company held a reserve of $46.2 million which satisfies the statutory requirements.

**Off-Balance Sheet Arrangements**

The Company has not entered into any off-balance sheet financing arrangements and has made no financial commitments or guarantees with any unconsolidated subsidiary or special purpose entity. All of the Company's subsidiaries are wholly owned and their results are included in the accompanying consolidated financial statements.

| **Contractual Obligations** | | Less than 1 Year | | 1-3 Years | | 4-5 Years | | After 5 Years | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Unfunded Limited Partnership Commitments (1) | $ | 26,090 | $ | 19,254 | $ | - | $ | - | $ | 45,344 |
| Policy Liabilities (2) | $ | 548,612 | $ | 897,504 | $ | 619,704 | $ | 2,408,401 | $ | 4,474,221 |

1) See Note 2 “Investments”, of the consolidated financial statements

(2) The difference between the recorded liability of $3,090.6 million, and the total payment obligation amount of $4,474.2 million, is $1,383.6 million and is comprised of (*i*) future interest to be credited; (*ii*) the effect of mortality discount for those payments that are life contingent; and (*iii*) the impact of surrender charges on those contracts that have such charges.

Of the total payment of $4,474.2 million, $2,918.2 million, or approximately 65%, is from the Company’s deferred annuity, life, and accident and health business. Determining the timing of these payments involves significant uncertainties, including mortality, morbidity, persistency, investment returns, and the timing of policyholder surrender. Notwithstanding these uncertainties, the table reflects an estimate of the timing of such payments.

**Effects of Inflation and Interest Rate Changes**

In a rising interest rate environment, the Company's average cost of funds would be expected to increase over time as it prices its new and renewing annuities to maintain a generally competitive market rate. In addition, the market value of the Company's fixed maturity portfolio decreases resulting in a decline in shareholders' equity. Concurrently, the Company would attempt to place new funds in investments that were matched in duration to, and higher yielding than, the liabilities associated with such annuities. Management believes that the liquidity necessary in such an interest rate environment to fund withdrawals, including surrenders, would be available through income, cash flow, bond maturities, the Company's cash reserves or from the sale of short-term investments.

In a declining interest rate environment, the Company's cost of funds would be expected to decrease over time, reflecting lower interest crediting rates on its fixed annuities. Should increased liquidity be required for withdrawals in such an interest rate environment, management believes that the portion of the Company's investments which are designated as available for sale in the Company's consolidated balance sheet could be sold without materially adverse consequences in light of the general strengthening in market prices which would be expected in the fixed maturity security market.

Interest rate changes also may have temporary effects on the sale and profitability of our universal life and annuity products. For example, if interest rates rise, competing investments (such as annuity or life insurance products offered by the Company's competitors, certificates of deposit, mutual funds and similar instruments) may become more attractive to potential purchasers of the Company's products until the Company increases the rates credited to holders of its universal life and annuity products. In contrast, as interest rates fall, we would attempt to lower our credited rates to compensate for the corresponding decline in net investment income. As a result, changes in interest rates could materially adversely affect the financial condition and results of operations of the Company depending on the attractiveness of alternative investments available to the Company's customers. In that regard, in the current interest rate environment, the Company has attempted to maintain its credited rates at competitive levels designed to discourage surrenders and also to be considered attractive to purchasers of new annuity products. Because the level of prevailing interest rates impacts the Company’s competitors in the same fashion, management does not believe that the current interest rate environment will materially affect the Company's competitive position vis a vis other life insurance companies that emphasize the sale of annuity products.

Notwithstanding the foregoing, if interest rates continue at current levels or decline, there can be no assurance that this segment of the life insurance industry would not experience increased levels of surrenders and reduced sales and thereby be materially adversely affected. Conversely, if interest rates rise, competing investments (such as annuity or life insurance products offered by the Company’s competitors, certificates of deposit, mutual funds and similar investments) may become more attractive to potential purchasers of the Company’s products until the Company increases its credited rates.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (″GAAP″) requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. In applying these accounting policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to the Insurance Company's business operations. The accounting policies considered by management to be critically important in the preparation and understanding of our financial statements and related disclosures are presented in Item *7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K/A for the year ended December 31, 2010.

**New Accounting Pronouncements**

See Note 1(L) of the consolidated financial statements for a full description of the new accounting pronouncements including the respective dates of adoption and the effects on the results of operations and financial condition.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of market risks, refer to the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2010. During the first nine months of 2011, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2010.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Management of the Company is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) of the Securities Exchange Act of 1934. As of September 30, 2011, the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of such disclosure controls and procedures. Based on such evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Remediation of Material Weakness in Internal Control over Financial Reporting**

To date, the Company has implemented changes in its internal control over financial reporting related to the accounting for limited partnership investments. In particular, the Company has implemented new policies and controls with respect to assessing the level of influence for its limited partnership investments and reporting the limited partnership activity based on a three month lag. With respect to the other than temporary impairment (OTTI) of limited partnerships investments, the Company developed and implemented an appropriate remediation plan. In particular, the investment accounting function reporting responsibility has changed and now reports to the Chief Financial Officer, or CFO. Pursuant to the new procedures, the investment accounting staff analyzes all investments for OTTI and provides the CFO and CIO their recommendation. These new procedures require the investment accounting staff, at the direction of the CFO, to perform more rigorous analytical testing of selected securities on a quarterly basis, which include discounted cash flow modeling as necessary. The results of such testing are utilized, in conjunction with detailed write-ups on selected securities to be provided by the CIO, in determining the proper OTTI for the quarter, if any. Once approved by the CIO and CFO, an OTTI analysis and recommendations are presented to the Investment Committee of the Board for their review and approval. Once approved by the Investment Committee, the OTTI analysis and recommendations are presented to the Audit Committee for their review and approval. This change in reporting responsibility and additional review procedures are designed to remediate the material weakness by strengthening the control environment as it relates to the OTTI review process. The Audit Committee has retained an independent advisor to assist the Company in further developing and implementing an appropriate remediation plan.

Other than the remediation efforts discussed above, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation of our controls performed during the period ended September 30, 2011, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

Item 1. Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. As of September 30, 2011 the Company is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors

The Company's business is subject to certain risks and events that, if they occur, could adversely affect the financial condition and results of operations and the trading price of our common stock. For a discussion of these risks, please refer to the "Risk Factors" section of the Company's 2010 Form 10-K/A. In connection with its preparation of this quarterly report, management has reviewed and considered these risk factors and has determined that there have been no material changes to the Company's risk factors since the date of filing the 2010 Form 10-K/A.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Other Information
None

Item 5. Exhibits and Reports on Form 8-K

a) Exhibits

31.1 Certification of Chief Executive Officer
31.2 Certification of Chief Financial Officer
32.1 Certification of Chief Executive Officer
32.2 Certification of Chief Financial Officer

b) Reports on Form 8-K

Description

Non-reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review, filed on March 10, 2011

Adoption on April 13, 2011 of the Executive Annual Incentive Plan, effective January 1, 2011 and filed on April 18, 2011.

Notice of Director not standing for re-election (filed as Exhibit 99.1 to the Company's Form 8-K filed on February 1, 2011, and incorporated herein by reference).

Press Release (filed as Exhibit 99.1 to the Company's Form 8-K filed on April 14, 2011, and incorporated herein by reference).

Press Release entitled "Presidential Life Announces Full Year and Fourth Quarter 2010 Results" (filed as Exhibit 99.1 to the Company's Form 8-K filed on March 31, 2011, and incorporated herein by reference).

Replacement of non-executive chairman (filed as Exhibit 99.1 to the Company's Form 8-K filed on June 9, 2011, and incorporated herein by reference).

Amendment and Restated Bylaws of Presidential Life Corporation (filed as Exhibit 3.1 to the Company's Form 8-K filed May 27, 2011, and incorporated herein by reference).

Press Release entitled "Presidential Life Announces First Quarter 2011 Results" (filed as Exhibit 99.1 to the Company's Form 8-K filed on May 16, 2011, and incorporated herein by reference).

Submission of matters to a vote of security holders (filed as Item 5.07 to the Company's Form 8-K filed on August 24, 2011, and incorporated herein by reference).

Press Release (filed as Exhibit 99.1 to the Company's Form 8-K filed on August 8, 2011, and incorporated herein by reference).

Annual meeting of the shareholders date reset (filed as Item 8.01 to the Company's Form 8-K filed on July 8, 2011, and incorporated herein by reference).

SIGNATURES

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

Presidential Life Corporation
(Registrant)

Date: November 7, 2011

/s/ Donald L. Barnes
Donald L. Barnes, President and Duly
Authorized Officer of the Registrant

Date: November 7, 2011

/s/ P.B. (Pete) Pheffer
P.B. (Pete) Pheffer, Chief Financial
Officer of the Registrant

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Exchange Act Rule 13a-15f

I, Donald L. Barnes, Chief Executive Officer of Presidential Life Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of Presidential Life Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 7, 2011

/s/Donald L. Barnes
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Donald L. Barnes
Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Exchange Act Rule 13a-15f

I, P.B. (Pete) Pheffer, Chief Financial Officer and Treasurer of Presidential Life Corporation certify that:

1. I have reviewed this quarterly report on Form 10–Q of Presidential Life Corporation,

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 7, 2011

/s/P.B. (Pete) Pheffer
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P.B. (Pete) Pheffer
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Presidential Life Corporation (the "Company") on Form 10-Q for the period ending September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Barnes, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/Donald L. Barnes
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Donald L. Barnes
Chief Executive Officer
November 7, 2011

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Presidential Life Corporation (the "Company") on Form 10-Q for the period ending September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, P.B. (Pete) Pheffer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ P.B. (Pete) Pheffer
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P.B. (Pete) Pheffer
Chief Financial Officer
November 7, 2011