

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  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

Commission file number 0-5486

**Presidential Life Corporation**

**Delaware**  
(State of incorporation)

**13-2652144**  
(IRS Employer Identification No.)

**69 Lydecker Street, Nyack, NY**  
(Address of principal executive offices)

**10960**  
(Zip Code)

Registrant's telephone number, including area code:

**(845) 358-2300**

Securities registered pursuant to Section 12(b) of the Act: **Not applicable.**

Securities registered pursuant to Section 12(g) of the Act:

| <u>Title of Each Class</u>              | <u>Name of each exchange on which registered</u> |
|---|--|
| Common Stock, par value \$.01 per share | Nasdaq   |

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 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  (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 Act). Yes  No

The number of shares outstanding of the Registrant's common stock as of November 7, 2009 was 29,574,697.

## INDEX

|            | <u>Page No.</u>   |       |
|------------|---|-------|
| Part I     | Financial Information   |       |
| Item 1.    | Condensed Consolidated Financial Statements   |       |
|            | Condensed Consolidated Balance Sheets<br>September 30, 2009 (Unaudited) and December 31, 2008                                       | 3     |
|            | Condensed Consolidated Statements of Operation (Unaudited)<br>For the Nine months ended September 30, 2009 and 2008                 | 4     |
|            | Condensed Consolidated Statements of Operations (Unaudited)<br>For the Three months ended September 30, 2009 and 2008               | 5     |
|            | Condensed Consolidated Statements of Shareholders'<br>Equity (Unaudited) - For the Nine months ended<br>September 30, 2009 and 2008 | 6     |
|            | Condensed Consolidated Statements of Cash Flows (Unaudited) -<br>For the Nine months ended September 30, 2009 and 2008              | 7     |
|            | Notes to Condensed Consolidated Financial Statements (Unaudited)  | 8-19  |
| Item 2.    | Management's Discussion and Analysis of<br>Financial Condition and Results of Operations  | 20-30 |
| Item 3.    | Quantitative and Qualitative Disclosures About Market Risk  | 31    |
| Item 4.    | Controls and Procedures   | 31    |
| Part II -  | Other Information   | 32-33 |
|            | Item 1. Legal Proceedings   |       |
|            | Item 1A. Risk Factors   |       |
|            | Item 2. Unregistered Sales of Equity Securities and Use of Proceeds   |       |
|            | Item 3. Defaults Upon Senior Securities   |       |
|            | Item 4. Submission of Matters to a Vote of Security Holders   |       |
|            | Item 5. Other Information   |       |
|            | Item 6. Exhibits  |       |
| Signatures |   | 34-35 |
|            | Certification of Chief Executive Officer  | 36    |
|            | Certification of Chief Financial Officer  | 37    |
|            | Certification of Chief Executive Officer  | 38    |
|            | Certification of Chief Financial Officer  | 39    |

PRESIDENTIAL LIFE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

|  | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 |
|--|--------------------------------------|----------------------|
| <b>ASSETS:</b>   |                                      |                      |
| Investments:   |                                      |                      |
| Fixed maturities:  |                                      |                      |
| Available for sale at market (Amortized cost of<br>\$3,043,878 and \$3,017,422 respectively)                                     | \$ 3,087,626                         | \$ 2,725,091         |
| Common stocks (Cost of \$787 and<br>\$1,100, respectively)   | 2,288                                | 2,979                |
| Derivative instruments, at fair value  | 983                                  | 507                  |
| Real estate  | 415                                  | 415                  |
| Policy loans   | 19,430                               | 18,945               |
| Short-term investments   | 285,002                              | 342,238              |
| Other long-term investments  | 193,249                              | 290,692              |
| Total Investments  | 3,588,993                            | 3,380,867            |
| Cash and cash equivalents  | 1,826                                | 3,820                |
| Accrued investment income  | 41,925                               | 40,986               |
| Amounts due from security transactions   | -                                    | 13,017               |
| Deferred policy acquisition costs  | 77,956                               | 122,338              |
| Furniture and equipment, net   | 471                                  | 538                  |
| Amounts due from reinsurers  | 14,882                               | 14,839               |
| Federal income taxes recoverable   | 24,912                               | 24,801               |
| Deferred federal income taxes, net   | 10,797                               | 78,810               |
| Other assets   | 1,266                                | 1,292                |
| <b>TOTAL ASSETS</b>  | <b>\$ 3,763,028</b>                  | <b>\$ 3,681,308</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>   |                                      |                      |
| Liabilities:   |                                      |                      |
| Policy Liabilities:  |                                      |                      |
| Policyholders' account balances  | \$ 2,442,329                         | \$ 2,429,635         |
| Future policy benefits:  |                                      |                      |
| Annuity  | 641,065                              | 639,547              |
| Life and accident and health   | 75,851                               | 72,221               |
| Other policy liabilities   | 11,811                               | 11,017               |
| Total Policy Liabilities   | 3,171,056                            | 3,152,420            |
| Notes payable  | -                                    | 66,500               |
| Deposits on policies to be issued  | 2,964                                | 2,959                |
| General expenses and taxes accrued   | 2,095                                | 3,487                |
| Other liabilities  | 26,850                               | 15,888               |
| Total Liabilities  | 3,202,965                            | 3,241,254            |
| Commitments and Contingencies  |                                      |                      |
| Shareholders' Equity:  |                                      |                      |
| Capital stock (\$.01 par value; authorized<br>100,000,000 shares outstanding,<br>29,574,697 and 29,574,315 shares, respectively) | 296                                  | 296                  |
| Additional paid in capital   | 6,496                                | 5,851                |
| Accumulated other comprehensive loss   | (2,252)                              | (137,160)            |
| Retained earnings  | 555,523                              | 571,067              |
| Total Shareholders' Equity   | 560,063                              | 440,054              |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS'<br/>    EQUITY</b>  | <b>\$ 3,763,028</b>                  | <b>\$ 3,681,308</b>  |

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

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

|  | NINE MONTHS ENDED<br>SEPTEMBER 30,<br>(UNAUDITED) |                       |
|--|---|-----------------------|
|  | <u>2009</u>                                       | <u>2008</u>           |
| REVENUES:  |   |                       |
| Insurance Revenues:  |   |                       |
| Premiums   | \$ 10,537   | \$ 11,308             |
| Annuity considerations   | 26,365  | 26,235                |
| Universal life and investment type policy fee income                       | 1,635   | 2,081                 |
| Net investment income  | 125,964   | 210,322               |
| Realized investment losses   | (6,743)   | (29,575)              |
| Other income   | <u>2,864</u>                                      | <u>1,740</u>          |
| <br>TOTAL REVENUES   | <br><u>160,622</u>                                | <br><u>222,111</u>    |
| <br>BENEFITS AND EXPENSES:   |   |                       |
| Death and other life insurance benefits                                    | 10,604  | 10,757                |
| Annuity benefits   | 58,934  | 61,874                |
| Interest credited to policyholders' account balances                       | 81,373  | 84,874                |
| Interest expense on notes payable  | 753   | 5,857                 |
| Other interest and other charges   | 1,068   | 1,070                 |
| Increase in liability for future policy benefits                           | 4,256   | 41                    |
| Commissions to agents, net   | 8,405   | 6,676                 |
| General expenses and taxes   | 12,496  | 13,548                |
| Change in deferred policy acquisition costs                                | <u>(2,003)</u>                                    | <u>4,863</u>          |
| <br>TOTAL BENEFIT AND EXPENSES   | <br><u>175,886</u>                                | <br><u>189,560</u>    |
| <br>Income (loss) before income taxes                                      | <br><u>(15,264)</u>                               | <br><u>32,551</u>     |
| <br>(Benefit) provision for income taxes                                   |   |                       |
| Current  | (676)   | 12,607                |
| Deferred   | <u>(4,590)</u>                                    | <u>(1,366)</u>        |
|  | <u>(5,266)</u>                                    | <u>11,241</u>         |
| <br>NET (LOSS) INCOME  | <br><u>\$ (9,998)</u>                             | <br><u>\$ 21,310</u>  |
| <br>Earnings per common share, basic                                       | <br><u>\$ (.34)</u>                               | <br><u>\$ .72</u>     |
| Earnings per common share, diluted   | <u>\$ (.34)</u>                                   | <u>\$ .72</u>         |
| <br>Weighted average number of shares outstanding during the period, basic | <br><u>29,574,511</u>                             | <br><u>29,559,550</u> |
| Weighted average number of shares outstanding during the period, diluted   | <u>29,574,511</u>                                 | <u>29,626,061</u>     |

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

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

|  | THREE MONTHS ENDED<br>SEPTEMBER 30,<br>(UNAUDITED) |             |
|--|--|-------------|
|  | <u>2009</u>  | <u>2008</u> |
| REVENUES:  |  |             |
| Insurance Revenues:  |  |             |
| Premiums   | \$ 3,331   | \$ 3,780    |
| Annuity considerations   | 11,239   | 9,468       |
| Universal life and investment type policy fee income                     | 489  | 560         |
| Net investment income  | 46,573   | 75,149      |
| Realized investment losses   | (2,583)  | (26,137)    |
| Other income   | 1,148  | 532         |
|  | <hr/>  | <hr/>       |
| TOTAL REVENUES   | 60,197   | 63,352      |
|  | <hr/>  | <hr/>       |
| BENEFITS AND EXPENSES:   |  |             |
| Death and other life insurance benefits                                  | 3,704  | 3,012       |
| Annuity benefits   | 20,044   | 19,542      |
| Interest credited to policyholders' account balances                     | 27,123   | 28,503      |
| Interest expense on notes payable  | -  | 1,903       |
| Other interest and other charges   | 418  | 456         |
| Increase in liability for future policy benefits                         | 3,143  | 1,648       |
| Commissions to agents, net   | 2,286  | 2,221       |
| General expenses and taxes   | 3,519  | 4,302       |
| Change in deferred policy acquisition costs                              | (136)  | 795         |
|  | <hr/>  | <hr/>       |
| TOTAL BENEFIT AND EXPENSES   | 60,101   | 62,382      |
|  | <hr/>  | <hr/>       |
| Income before income taxes   | 96   | 970         |
|  | <hr/>  | <hr/>       |
| Provision (benefit) for income taxes                                     |  |             |
| Current  | 4,003  | (3,635)     |
| Deferred   | (3,970)  | 3,980       |
|  | <hr/>  | <hr/>       |
|  | 33   | 345         |
|  | <hr/>  | <hr/>       |
| NET INCOME   | \$ 63  | \$ 625      |
|  | <hr/>  | <hr/>       |
| Earnings per common share, basic   | \$ -   | \$ .02      |
| Earnings per common share, diluted                                       | \$ -   | \$ .02      |
|  | <hr/>  | <hr/>       |
| Weighted average number of shares outstanding during the period, basic   | 29,574,697   | 29,568,147  |
| Weighted average number of shares outstanding during the period, diluted | 29,574,697   | 29,629,601  |
|  | <hr/>  | <hr/>       |

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

PRESIDENTIAL LIFE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
(in thousands, except per share data)  
(unaudited)

|  | Capital<br>Stock | Additional<br>Paid-in-<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total             |
|--|------------------|-----------------------------------|----------------------|--|-------------------|
| Balance at<br>January 1, 2008                          | \$ 295           | \$ 4,538                          | \$ 565,418           | \$ 91,704  | \$ 661,955        |
| Comprehensive Income:                                  |                  |                                   |                      |  |                   |
| Net Income   |                  |                                   | 21,310               |  | 21,310            |
| Rate Lock Adjustment                                   |                  |                                   |                      | (221)  | (221)             |
| Net Unrealized Investment<br>Losses                    |                  |                                   |                      | (159,802)  | <u>(159,802)</u>  |
| Comprehensive Income                                   |                  |                                   |                      |  | (138,713)         |
| Issuance of Shares<br>Under stock option plan          | 1                | 238                               |                      |  | 239               |
| Share Based Compensation                               |                  | 830                               |                      |  | 830               |
| Dividends paid to Shareholders<br>(\$ .125 per share)  |                  |                                   | <u>(11,088)</u>      |  | <u>(11,088)</u>   |
| Balance at<br>September 30, 2008                       | <u>\$ 296</u>    | <u>\$ 5,606</u>                   | <u>\$ 575,640</u>    | <u>\$ (68,319)</u>                                     | <u>\$ 513,223</u> |
| Balance at<br>January 1, 2009                          | \$ 296           | \$ 5,851                          | \$ 571,067           | \$ (137,160)   | \$ 440,054        |
| Comprehensive Income:                                  |                  |                                   |                      |  |                   |
| Net Loss   |                  |                                   | (9,998)              |  | (9,998)           |
| Net Unrealized Investment<br>Gains                     |                  |                                   |                      | 134,908  | <u>134,908</u>    |
| Comprehensive Income                                   |                  |                                   |                      |  | 124,910           |
| Issuance of Shares<br>Under stock option plan          |                  | 4                                 |                      |  | 4                 |
| Share Based Compensation                               |                  | 641                               |                      |  | 641               |
| Dividends paid to Shareholders<br>(\$ .0625 per share) |                  |                                   | <u>(5,546)</u>       |  | <u>(5,546)</u>    |
| Balance at<br>September 30, 2009                       | <u>\$ 296</u>    | <u>\$ 6,496</u>                   | <u>\$ 555,523</u>    | <u>\$ (2,252)</u>                                      | <u>\$ 560,063</u> |

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

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

NINE MONTHS ENDED  
SEPTEMBER 30,  
(UNAUDITED)

|   | <u>2009</u>        | <u>2008</u>         |
|---|--------------------|---------------------|
| <b>OPERATING ACTIVITIES:</b>  |                    |                     |
| Net (Loss) income   | \$ (9,998)         | \$ 21,310           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                     |
| Benefit for deferred income taxes   | (4,590)            | (1,366)             |
| Depreciation and amortization   | 194                | 683                 |
| Stock option expense  | 641                | 830                 |
| Net accrual of discount on fixed maturities                                       | (12,415)           | (14,386)            |
| Realized investment losses  | 6,743              | 29,575              |
| Other than temporary impairments recognized /other long-term investments          | 7,726              | -                   |
| Changes in:   |                    |                     |
| Accrued investment income   | (939)              | 746                 |
| Deferred policy acquisition cost  | (2,003)            | 4,863               |
| Federal income tax recoverable  | (111)              | (19,002)            |
| Liability for future policy benefits  | 5,148              | 2,129               |
| Liability for amounts due brokers   | 8,988              | 3,454               |
| Other items   | (389)              | (98)                |
| <b>Net Cash (Used In) Provided By Operating Activities</b>                        | <b>\$ (1,005)</b>  | <b>\$ 28,738</b>    |
| <b>INVESTING ACTIVITIES:</b>  |                    |                     |
| Fixed Maturities:   |                    |                     |
| Available for Sale:   |                    |                     |
| Acquisitions  | (204,214)          | (332,809)           |
| Maturities, calls and repayments  | 10,411             | -                   |
| Sales   | 172,860            | 389,421             |
| Common Stocks:  |                    |                     |
| Acquisitions  | (4)                | -                   |
| Sales   | -                  | 338                 |
| Decrease in short-term investments and policy loans                               | 56,751             | 58,414              |
| Other long-term investments:  |                    |                     |
| Additions to other long-term investments  | (30,450)           | (55,401)            |
| Distributions from other long-term investments                                    | 38,836             | 28,144              |
| Amount due from security transactions   | 13,017             | 22,564              |
| <b>Net Cash Provided By Investing Activities</b>                                  | <b>\$ 57,207</b>   | <b>\$ 110,671</b>   |
| <b>FINANCING ACTIVITIES:</b>  |                    |                     |
| Increase (decrease) in policyholders' account balances                            | 12,694             | (97,545)            |
| Bank overdrafts   | 1,147              | (13,232)            |
| Deposits on policies to be issued   | 5                  | (7,332)             |
| Issuance of common stock  | 4                  | 238                 |
| Retirement of Senior Notes  | (66,500)           | (11,205)            |
| Dividends paid to shareholders  | (5,546)            | (11,084)            |
| <b>Net Cash Used In Financing Activities</b>                                      | <b>\$ (58,196)</b> | <b>\$ (140,160)</b> |
| Decrease in Cash and Cash Equivalents   | (1,994)            | (751)               |
| Cash and Cash Equivalents at Beginning of Period                                  | 3,820              | 3,631               |
| <b>Cash and Cash Equivalents at End of Period</b>                                 | <b>\$ 1,826</b>    | <b>\$ 2,880</b>     |
| <b>Supplemental Cash Flow Disclosure:</b>   |                    |                     |
| Income Taxes Paid   | \$ 208             | \$ 31,609           |
| Interest Paid   | \$ 2,618           | \$ 7,148            |

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

**PRESIDENTIAL LIFE CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Business**

Presidential Life Corporation (“the Company” or “the Corporation”), through its wholly owned subsidiary, Presidential Life Insurance Company (“Insurance Company”), is engaged in the sale of life insurance and annuities.

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

The accompanying unaudited condensed 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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Management believes that, although the disclosures are adequate to make the information presented not misleading, these condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on Form 10-K on March 12, 2009.

We manage and report our business as a single segment in accordance with the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 280-10, (formerly Statement of Financial Accounting Standards (“SFAS 131”)), 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 business is divided between annuities (approximately 91%) and life insurance (approximately 9%). The nature of these two product lines is sufficiently similar to permit their aggregation as a single reporting segment. Approximately 71% 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 the Company does not take mortality charges on either product. Moreover, the two products 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 the 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.

**C. 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, 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 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.

“Other long-term investments” are recorded using the equity method and primarily include interests in limited partnerships, which principally are engaged in real estate, international opportunities, acquisitions of private growth companies, debt restructuring and merchant banking and substantially all of their investments are at fair value. 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 practice of many of the partnerships, with the exception of hedge fund limited partnerships, to typically make quarterly distributions (to the extent that distributions are available) of partnership earnings. Investment income from limited partnerships is recorded based on the Company’s share of earnings reported in the partnership’s most recent audited financial statements and income distributed by the partnerships. Management considers the quarterly financial information received from the limited partnerships to be unreliable or insufficient to record investment income, other than from distributions, on a quarterly basis. Management estimates the classification of cash distributions received between investment income and return of capital based on correspondence from the respective partnerships. The Company adjusts its estimate of investment income recorded during the year to the actual realized gains and other income reported in the limited partnerships’ most recent annual audited financial statements, which are generally received in the second quarter of the subsequent year. As a result, there is generally a reporting lag of up to one year for recording investment income that is not distributed during the year, which may result in significant adjustments in the subsequent year. During periods of rapid growth in the economy, or rapid declines, the

delayed impact on market values, either positive or negative, may be more pronounced. The adjustments to its estimates of investment income recorded during the preceding year ("true-up") for the nine month periods ended September 30, 2009 and September 30, 2008 resulted in a decrease in net investment income of approximately \$13.7 million and an increase of approximately \$25.7 million, respectively. The Company records its share of net unrealized gains and losses (net of taxes) from the audited financial statements of the limited partnerships. As a result, there is also generally up to a one-year reporting lag for reporting unrealized gains and losses, which may result in significant adjustments to other comprehensive income in 2009. Net unrealized losses (cumulative, after tax effects) totaled approximately \$27.1 million at September 30, 2009 and a net unrealized gain of \$25.7 million at December 31, 2008 and are included in the balance sheet under other comprehensive income. To evaluate the appropriateness of the carrying value of a limited partnership interest, management maintains ongoing discussions with the investment manager and considers the limited partnership's operation, its current and near term projected financial condition, earnings capacity, and distributions received by the Company during the year. Because it is not practicable to obtain an independent valuation for each limited partnership interest, for purposes of disclosure the market value of a limited partnership interest is estimated at book value based on the most recent available audited financial statements plus capital contributions subsequently made by the Company less subsequent distributions received from the partnerships. Other long term investments totaled approximately \$193.2 million as of September 30, 2009 and \$290.7 million as of December 31, 2008. As of September 30, 2009, the Company was committed to contribute, if called upon, an aggregate of approximately \$99.2 million of additional capital to certain of these limited partnerships. Commitments of \$5.9 million, \$4.5 million, \$38.0 million, \$45.7 million and \$5.1 million will expire in 2009, 2010, 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.

In evaluating whether an investment security or other investment has suffered an impairment in value that is deemed to be other than temporary, management considers all available evidence. When a decline in the value of an investment security or other investment is considered to be other than temporary, the investment is reduced to its fair value (which contemplates the price that can be obtained from the sale of such asset in the ordinary course of business), which becomes the new cost basis. The amount of reduction is recorded in the income statement as a realized loss. A recovery from the adjusted cost basis is recognized as a realized gain only at sale.

Realized gains and losses on disposal of investments are determined for fixed maturities, other long-term investments 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 approximates market value. Policy loans are stated at their unpaid principal balance.

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.

The Company accounts for its derivative financial instruments under ASC 815-10 (formerly SFAS No. 133), "Accounting for Derivative Instrument and Hedging Activities". ASC 815-10 requires all derivative instruments to be recorded in the balance sheet at fair value. Changes in the fair value of derivative instruments are recorded as other income (loss) in the period in which they arise. The Company has not designated its derivatives related to marketable securities as hedges, in accordance with ASC 815-10. Accordingly, the change in fair value of derivatives is recognized as a component of realized investment gains and losses in earnings as described above. The Company does not hold or issue any derivative financial instruments for speculative trading purposes.

#### **D. 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 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 (DAC) 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.

**E. 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.

**F. 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 less mortality and expense charges and withdrawals.

**G. 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.

**H. 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, 2009 and 2008 was 29,574,511 and 29,626,061, respectively. The dilution from the potential exercise of stock options outstanding did not reduce EPS during the nine months ended September 30, 2009 or 2008.

Options totaling 873,213 and 81,309 shares of common stock for the nine months ended September 30, 2009 and September 30, 2008, respectively were not included in the computation of weighted average shares because the impact of these options was antidilutive.

**I. New Accounting Pronouncements**

In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-12, "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." This ASU provides amendments for the fair value measurement of investments to create a practical expedient to measure the fair value of an investment in certain entities on the basis of the net asset value per share of the investment (or its equivalent) determined as of the reporting entity's measurement date. Therefore, certain attributes of the investment (such as restrictions on redemption) and transaction prices from principal-to-principal or brokered transactions will not be considered in measuring the fair value of the investment if the practical expedient is used. The amendment in this ASU also requires disclosures by major category of investment about the attributes of those investments, such as the nature of any restrictions on the investor's ability to redeem its investments at measurement date, any unfunded commitments, and the investment strategies of the investees. The amendments in this ASU are effective for interim and annual periods ending after December 15, 2009. We are currently evaluating this new ASU and anticipate that it will not have a significant impact on our financial position or results of operations.

In August 2009, the FASB issued ASU No. 2009-05, "Measuring Liabilities at Fair Value." This ASU clarifies the application of certain valuation techniques in circumstances in which a quoted price in an active market for the identical liability is not available and clarifies that when estimating the fair value of a liability, the fair value is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. The guidance provided in this ASU becomes effective for us on October 1, 2009. We have evaluated this ASU and have determined there are no significant impacts to our financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS No. 167 was issued to amend FASB Interpretation No. 46(R) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. SFAS No. 167 shall be effective as of the Company's first annual reporting period and interim reporting periods beginning after November 15, 2009. As of September 30, 2009, SFAS 167 has not been incorporated within the FASB ASC. The Company is in the process of evaluating the impact, if any, of applying this standard on its financial position, results of operations and cash flows.

In June 2009, the FASB approved the *FASB Accounting Standards Codification (Codification)* as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (*U.S. GAAP*) which was launched on July 1, 2009. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered non-authoritative. The Codification is effective for interim and annual periods ending after September 15, 2009. References made to FASB guidance throughout this document have been updated for the Codification.

In May 2009, the FASB issued ASC 855-10, (formerly SFAS No. 165), *Subsequent Events*. ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This statement became effective for interim and annual periods ending after June 15, 2009. Since ASC 855-10 only requires additional disclosures, the adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2009, the Financial Accounting Standards Board (“FASB”) issued ASC 820-10-65, (formerly Staff Position No. FAS 157-4), “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”. ASC 820-10-65 clarifies fair valuation in inactive markets and includes all assets and liabilities subject to fair valuation measurements. ASC 820-10-65 requires enhanced disclosures related to fair valued assets and liabilities. The adoption of ASC 820-10-65 did not have an impact on the Company’s consolidated results of operations or financial condition.

In April 2009, the FASB issued ASC 320-10-65, (formerly Staff Position No. FAS 115-2 and FAS 124-2), “Recognition and Presentation of Other-Than-Temporary Impairments”. ASC 320-10-65 provides additional guidance regarding other-than-temporary impairment of debt securities and changes in the recognition and presentation of debt securities determined to be other-than-temporarily impaired. The guidance requires an enterprise to bifurcate any other-than-temporary impairment between credit and non-credit impairments and then establishes accounting treatment for each aspect, in current and subsequent periods. This guidance also requires retroactive application to other-than-temporary impairments recorded in prior periods by making a cumulative-effect adjustment to the opening balance of retained earnings and accumulated other comprehensive income (loss) in the period of adoption. The adoption of ASC 320-10-65 as of June 30, 2009 caused no significant change to the Company’s financial condition or results of operations.

In April 2009, the FASB issued ASC 825-10-65, (formerly Staff Position No. FAS 107-1 and APB 28-1), “Interim Disclosures about Fair Value of Financial Instruments”. ASC 825-10-65 expands the fair value disclosures required for all financial instruments within the scope of ASC 825-10 to interim periods. The guidance also requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim and annual basis and to highlight any changes from prior periods. The Company adopted ASC 825-10-65 during the second quarter of 2009 resulting in additional financial disclosures in Note 10 of the Company’s consolidated financial statements.

In December 2008, the FASB issued Staff Position No. FAS 140-4 and FIN 46-(R)-8, “Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities” which has been codified into ASC 860. This guidance amends FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”, to require public entities to provide additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46(R), to require public enterprises, including sponsors that have a variable interest in a VIE, to provide additional disclosures about their involvement with VIEs. The guidance is related to disclosure only and became effective in the first quarter of 2009. The adoption of the requirements did not have an impact on our consolidated financial position or results of operations.

In October 2008, the FASB issued FSP FAS 157-3 (codified into ASC 820), “Determining the Fair Value of a Financial Asset When the Market For That Asset Is Not Active”, with an immediate effective date, including prior periods for which financial statements have not been issued. ASC 820-10 amends FAS 157 to clarify the application of fair value in inactive markets and allows for the use of management’s internal assumptions about future cash flows with appropriately risk-adjusted discount rates when relevant observable market data does not exist. The objective of FAS 157 has not changed and continues to be the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The adoption of this in the third quarter of 2008 did not have a material effect on the Company’s results of operations, financial position or liquidity.

In March 2008, the FASB issued ASC 815-10 (formerly SFAS No. 161), which amends and expands disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why any entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for; and (iii) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. The provisions of this standard were adopted on January 1, 2009. See Note 10 for additional disclosures about our derivative instruments.

## 2. INVESTMENTS

There were no investments in any one issuer that totaled 10% or more of Shareholders' Equity as of September 30, 2009.

The following information summarizes the components of net investment income:

|                          | For the nine months ended<br>September 30, 2009<br>(in thousands)  | For the nine months ended<br>September 30, 2008<br>(in thousands)  |
|--------------------------|--|--|
| Fixed maturities         | \$ 146,720   | \$ 154,333   |
| Limited Partnerships     | (18,622)   | 48,803   |
| Common stocks            | 748  | 1,457  |
| Short-term investments   | 699  | 7,888  |
| Other investment income  | 1,702  | 1,857  |
|                          | <u>131,247</u>   | <u>214,338</u>   |
| Less investment expenses | <u>5,283</u>   | <u>4,016</u>   |
| Net investment income    | <u>\$ 125,964</u>  | <u>\$ 210,322</u>  |
|                          | For the three months ended<br>September 30, 2009<br>(in thousands) | For the three months ended<br>September 30, 2008<br>(in thousands) |
| Fixed maturities         | \$ 48,533  | \$ 51,223  |
| Limited Partnerships     | (1,455)  | 22,553   |
| Common stocks            | 10   | 182  |
| Short-term investments   | 153  | 1,854  |
| Other investment income  | 788  | 368  |
|                          | <u>48,029</u>  | <u>76,180</u>  |
| Less investment expenses | <u>1,456</u>   | <u>1,031</u>   |
| Net investment income    | <u>\$ 46,573</u>   | <u>\$ 75,149</u>   |

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, 2009:

| Description of Securities  | Less Than 12 Months |                      | 12 Months or More |                      | Total            |                      |
|--|---------------------|----------------------|-------------------|----------------------|------------------|----------------------|
|  | Fair Value          | Unrealized<br>Losses | Fair Value        | Unrealized<br>Losses | Fair Value       | Unrealized<br>Losses |
|  | (in thousands)      |                      |                   |                      |                  |                      |
| US Treasury obligations<br>and direct obligations of<br>US Government Agencies | \$ 1,760            | \$ 44                | \$ 9,249          | \$ 3,110             | \$ 11,009        | \$ 3,154             |
| Corporate Bonds  | 157,114             | 12,841               | 588,021           | 83,024               | 745,135          | 95,865               |
| Preferred Stocks   | 2,909               | 457                  | 57,635            | 19,346               | 60,544           | 19,803               |
| Subtotal Fixed Maturities  | <u>161,783</u>      | <u>13,342</u>        | <u>654,905</u>    | <u>105,480</u>       | <u>816,688</u>   | <u>118,822</u>       |
| Common Stock   | <u>1</u>            | <u>4</u>             | <u>0</u>          | <u>0</u>             | <u>1</u>         | <u>4</u>             |
| Total Temporarily<br>Impaired Securities                                       | <u>\$161,784</u>    | <u>\$ 13,346</u>     | <u>\$ 654,905</u> | <u>\$ 105,480</u>    | <u>\$816,689</u> | <u>\$ 118,826</u>    |

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, 2008:

| Description of Securities  | Less Than 12 Months |                   | 12 Months or More |                   | Total               |                   |
|--|---------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value          | Unrealized Losses |
|  | (in thousands)      |                   |                   |                   |                     |                   |
| US Treasury obligations and direct obligations of US Government Agencies | \$ 14,869           | \$ 1,301          | \$ 12,911         | \$ 2,540          | \$ 27,780           | \$ 3,841          |
| Corporate Bonds  | 1,150,137           | 163,040           | 577,184           | 148,118           | 1,727,321           | 311,158           |
| Preferred Stocks   | 20,661              | 7,118             | 47,648            | 33,596            | 68,309              | 40,714            |
| Subtotal Fixed Maturities  | 1,185,667           | 171,459           | 637,743           | 184,254           | 1,823,410           | 355,713           |
| Common Stock   | 249                 | 144               | -                 | -                 | 249                 | 144               |
| Total Temporarily Impaired Securities                                    | <u>\$ 1,185,916</u> | <u>\$ 171,603</u> | <u>\$ 637,743</u> | <u>\$ 184,254</u> | <u>\$ 1,823,659</u> | <u>\$ 355,857</u> |

The following table presents the total gross unrealized losses for fixed maturities where the estimated fair value had declined and remained below amortized cost by September 30, 2009.

|                         | Gross Unrealized Losses | % Of Total    |
|-------------------------|-------------------------|---------------|
|                         | (in thousands)          |               |
| Less than twelve months | \$ 13,342               | 11.23         |
| Twelve months or more   | 105,480                 | 88.77         |
| Total                   | <u>\$ 118,822</u>       | <u>100.00</u> |

The following table presents the total gross unrealized losses for fixed maturities where the estimated fair value had declined and remained below amortized cost by December 31, 2008.

|                         | Gross Unrealized Losses | % Of Total    |
|-------------------------|-------------------------|---------------|
|                         | (in thousands)          |               |
| Less than twelve months | \$ 171,459              | 48.20         |
| Twelve months or more   | 184,254                 | 51.80         |
| Total                   | <u>\$ 355,713</u>       | <u>100.00</u> |

Formatted Table

As of September 30, 2009 and December 31, 2008, the Company had approximately \$162.6 million and \$63.4 million, respectively, of gross unrealized gains in fixed maturities.

The Company's investments are concentrated primarily in investment-grade fixed income securities that are exposed to a variety of risks, including interest rate and credit risk, which can significantly impact fluctuations in overall market valuation. During the first nine months of 2009, the portfolio experienced a rise in market value caused by a substantial tightening in corporate bond spreads against U.S. Treasuries. Spreads on 10-year, A-rated industrial bonds, a significant investment sector of the Company's corporate bond portfolio, tightened from 370 basis points higher than 10-year Treasuries at December 31, 2008 to 139 basis points over the 10-year Treasury at September 30, 2009, as evidenced by the Bank of America/Merrill Lynch Corporate Spline Index. BBB-rated industrial bonds tightened from 665 basis points higher than the 10-year Treasury yield at year-end 2008 to 244 basis points over the U.S Treasury yield at September 30, 2009. This tightening in corporate spreads resulted in a substantial rise in the market value of the Company's fixed income portfolio, causing a corresponding increase in the Company's book value. Presidential's book value per share increased from \$14.88 per share at December 31, 2008 to \$18.94 at September 30, 2009, a 27% improvement.

Management evaluates whether temporary or other than temporary impairments have occurred on a case-by-case basis. Management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause and decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by the Company in the other than temporary impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been below amortized cost; (ii) whether the issuer is experiencing significant financial difficulties; (iii) financial difficulties being experienced by an entire industry sector or sub-sector; (iv) economically depressed geographic locations; (v) situations where the issuer, series of issuers or industry has a catastrophic type of loss or has exhausted natural resources; (vi) in situations where it is determined that an impairment is attributable to changes in market interest rates, the Corporation's ability and intent to hold impaired securities until recovery of fair value at or above cost; and (vii) other subjective factors, including concentrations and information obtained from regulators and rating agencies. The Company had approximately \$9.6 million and \$3.8 million in write-downs attributable to other than temporary impairments in fixed maturities and other long term investments, respectively for the nine months ended September 30, 2009.

One of the Insurance Company's Limited Partnership investments has assets of approximately \$9 million located at the prime brokerage unit of Lehman Brothers International (Europe) ("LBIE"), located in the United Kingdom. Since September 2008 when Lehman Brothers filed for bankruptcy, the assets were frozen and the claims to such assets are subject to the resolution of the bankruptcy proceedings. In March 2009, the Company incurred an impairment of \$981,000 against the limited partnership investment.

### 3. NOTES PAYABLE

Notes payable at December 31, 2008 consisted of \$66.5 million, 7 7/8% Senior Notes ("Senior Notes") that were due February 17, 2009. Interest was payable February 15 and August 15. Debt issue costs were being amortized on the interest method over the term of the notes. The remaining principal was paid in full on February 17, 2009. This was financed through the sale of short-term commercial paper, fixed maturities and an upstream dividend payment from the Insurance Company in January 2009 in the amount of \$16 million.

### 4. SHAREHOLDERS' EQUITY

On November 12, 2008, due to the uncertain economic climate, the Board of Directors determined that a reduction of the dividend was a prudent measure to preserve capital; they therefore approved a 50% decrease in the quarterly dividend to \$.0625 per share from \$.125 per share. The Company is authorized pursuant to a resolution of the Board of Directors to repurchase 385,000 shares of its common stock.

### 5. NET UNREALIZED INVESTMENT GAINS/(LOSSES)

|   | Pre Tax<br>Amount   | Tax<br>(Expense)/<br>Benefit | After-Tax<br>Amount |
|---|---------------------|------------------------------|---------------------|
|   |                     | (in thousands)               |                     |
| For the Nine months ended September 30, 2009:                       |                     |                              |                     |
| Net unrealized gains on investment securities:                      |                     |                              |                     |
| Net unrealized holding gains arising during year                    | \$ 167,360          | \$ (58,576)                  | \$ 108,784          |
| Plus: reclassification adjustment for losses realized in net income | (6,743)             | 2,360                        | (4,383)             |
| Change related to deferred policy acquisition costs                 | 46,934              | (16,427)                     | 30,507              |
| Net unrealized investment gains                                     | <u>\$ 207,551</u>   | <u>\$ (72,643)</u>           | <u>\$ 134,908</u>   |
| For the Nine months ended September 30, 2008:                       |                     |                              |                     |
| Net unrealized losses on investment securities:                     |                     |                              |                     |
| Net unrealized holding losses arising during year                   | \$ (181,708)        | \$ 63,598                    | \$ (118,110)        |
| Plus: reclassification adjustment for losses realized in net income | (29,575)            | 10,351                       | (19,224)            |
| Change related to deferred policy acquisition costs                 | (34,566)            | 12,098                       | (22,468)            |
| Net unrealized investment losses                                    | <u>\$ (245,849)</u> | <u>\$ 86,047</u>             | <u>\$ (159,802)</u> |

### 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). In January 2005, the Company's Board of Directors approved an annual contribution to the 401(k) plan equal to 4% of all employees' salaries, allocated to each of the Company's employees without regard to the amounts, if any, contributed to the plan by the employees. The Company contribution is subject to a vesting schedule. The Company contributed approximately \$253,900 and \$241,000 into this plan during the nine months ended September 30, 2009 and September 30, 2008, 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 relate 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 are not expected to be realized. Upon review, the Company's management concluded that it is "more likely than not" that the net 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 2001. From 2001 through 2004, however, the Company may be subject to tax examinations because the IRS is performing audits on partnership returns in which the Company has investments. While the Company cannot predict the outcome of the current IRS examination, any adjustments are not expected to be material. The IRS examination for years 2001-2004 is expected to be concluded during 2009.

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, 2009 to be 34.5%.

The Company adopted the provisions of ASC 740 (formerly FASB Interpretation No. 48), "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109", on January 1, 2007. The balance of the unrecognized tax benefits was \$2,426,454 at December 31, 2008 and \$690,229 as of September 30, 2009. If recognized, this entire adjustment would reduce the effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

|   |    |         |
|---|----|---------|
| Balance at December 31, 2008                    | \$ | 2,426   |
| Increases related to prior year tax positions   |    | 124     |
| Decreases related to prior year tax positions   |    | (1,860) |
| Increases related to current year tax positions |    | -       |
| Settlements                                     |    | -       |
| Lapse of statute of limitations                 |    | -       |
| Balance at September 31, 2009                   | \$ | 690     |

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 ASC 740 (formerly FIN 48) liability above was \$364,000 as of December 31, 2008 and \$371,000 as of September 30, 2009.

As of September 30, 2009, the Company is not aware of any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits 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, 2009, 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.

## 9. SUBSEQUENT EVENTS

The company has evaluated subsequent events through November 9, 2009, which represents the date the financial statements were issued. The company identified the following subsequent event for disclosure.

On November 6, 2009, Herbert Kurz, Chairman of the Company, filed Schedule 14A containing preliminary consent solicitation materials with the Securities and Exchange Commission. According to the preliminary materials, Mr. Kurz will seek consents from the Company's stockholders in favor of proposals that, among other things, would remove without cause all of the Company's directors (other than Mr. Kurz) and elect new directors named in the materials. See Item 1A, "Risk Factors."

## 10. 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.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

For fixed maturities and common stocks, estimated fair values were based primarily upon quoted market prices. For a limited number of privately placed securities, where quoted market prices are not available, the Company estimates market values using a matrix pricing model, based on the issuer's credit standing and the security's interest rate spread over U.S. Treasury bonds.

The Company determines the fair value of its limited partnership investments based upon financial reports and valuations provided by the general partners. During 2008, the Company's unrealized gain from its limited partnership investments decreased by \$39.6 million (pre-tax), which carried a book value of \$290.7 million at December 31, 2008. In the first nine months of 2009, the Company's unrealized gain of \$39.6 million at December 31, 2008 decreased by \$81.3 million (pre-tax) to an unrealized loss of \$41.7 million at September 30, 2009. The limited partnership investments carried a book value of \$193.2 million at September 30, 2009.

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

Estimated fair values of policyholders' account balances for investment type products (i.e., deferred annuities, immediate annuities without life contingencies and universal life contracts) are calculated by projecting the contract cash flows and then discounting them back to the valuation date at an appropriate discount rate. For immediate annuities without life contingencies, the cash flows are defined contractually. For all other products, projected cash flows are based on an assumed lapse rate and crediting rate (based on the current treasury yield curve), adjusted for any anticipated surrender charges. The discount rate is based on the current duration matched treasury curve, plus an adjustment to reflect the anticipated spread above treasuries on investment grade fixed maturity securities, less an expense and profit spread.

| <u>September 30, 2009</u>       | <b>Carrying Value</b> |                | <b>Estimated Fair Value</b> |
|---------------------------------|-----------------------|----------------|-----------------------------|
| <i>Assets</i>                   |                       | (in thousands) |                             |
| Fixed Maturities:               |                       |                |                             |
| Available for Sale              | \$ 3,087,626          | \$             | 3,087,626                   |
| Common Stock                    | 2,288                 |                | 2,288                       |
| Derivatives                     | 983                   |                | 983                         |
| Policy Loans                    | 19,430                |                | 19,430                      |
| Cash and Short-Term Investments | 286,828               |                | 286,828                     |
| Other Long-Term Investments     | 193,249               |                | 193,249                     |
| <i>Liabilities</i>              |                       |                |                             |
| Policyholders' Account Balances | \$ 2,442,329          | \$             | 2,580,385                   |
| <u>December 31, 2008</u>        | <b>Carrying Value</b> |                | <b>Estimated Fair Value</b> |
| <i>Assets</i>                   |                       | (in thousands) |                             |
| Fixed Maturities:               |                       |                |                             |
| Available for Sale              | \$ 2,725,091          | \$             | 2,725,091                   |
| Common Stock                    | 2,979                 |                | 2,979                       |
| Derivatives                     | 507                   |                | 507                         |
| Policy Loans                    | 18,945                |                | 18,945                      |
| Cash and Short-Term Investments | 346,058               |                | 346,058                     |
| Other Long-Term Investments     | 290,692               |                | 290,692                     |
| <i>Liabilities</i>              |                       |                |                             |
| Policyholders' Account Balances | \$ 2,429,635          | \$             | 2,611,399                   |
| Note Payable                    | 66,500                |                | 66,500                      |

Effective January 1, 2008, we adopted ASC 820-10 (formerly SFAS No. 157), *Fair Value Measurements*. ASC 820-10 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. As of January 1, 2009, ASC 820-10, "Fair Value Measurements," applies to both the Company's financial assets and liabilities and non-financial assets and liabilities. ASC 820-10 provides guidance for using fair value to measure assets and liabilities and only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurements. The Company did not have any fair value measurements for its non-financial assets and liabilities during the first nine months ended September 30, 2009. The adoption of ASC 820-10 did not have a material impact on our fair value measurements.

Beginning January 1, 2008, 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, as defined by ASC 820-10, are as follows:

| <b>Level Input:</b> | <b>Input Definition:</b>  |
|---------------------|---|
| Level 1             | Observable inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date. Level 1 securities without limitations 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.  |

### ***Valuation of Investments***

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 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. 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 a pricing service to estimate fair value measurements for approximately 97.8% of its fixed maturities. The majority of the remaining fair value measurements are based on non-binding broker prices. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets, such as U.S. Treasury Securities. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, 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. 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. The market inputs utilized in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events. 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 unavailable due to market conditions.

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.

#### 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.

For private equity, the Company adjusts its estimate of investment income recorded during the year to the actual realized gains and other income reported in the limited partnerships' most recent annual audited financial statements, which are generally received in the second quarter of the subsequent year. As a result, there may be up to a one year reporting lag for recording investment income that is not distributed during the year, which may result in significant adjustments. The Company records its share of net unrealized gains and losses (net of taxes) from the audited financial statements of the limited partnerships. As a result, there may be up to a one year reporting lag for reporting unrealized gains and losses, which may result in significant adjustments to other comprehensive income in 2009. Because it is not practicable to obtain an independent valuation for each limited partnership interest, for purposes of disclosure the market value of a limited partnership interest is estimated at book value based on the most recent available audited financial statements. Due to the significant unobservable inputs in these valuations, the Company includes the total fair value estimate for all of these investments at September 30, 2009 in the amount disclosed in Level 3.

#### Derivatives

Valuations are secured monthly from each Counterparty which is a major money center bank for the 2 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. Presidential Life 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 Presidential Life 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.

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)           |  |           |  |  | <b>Fair Value Measurements Using</b>          |   |  |  |  |
|-----------------------------|--|-----------|--|--|---|---|--|--|--|
| Description                 | Quoted prices in Active Markets for Identical Assets |           |  |  | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |  |  |  |
|                             | As of 9/30/2009                                      | (Level 1) |  |  |   |   |  |  |  |
| <b>Assets:</b>              |  |           |  |  |   |   |  |  |  |
| Fixed Maturities            | 3,087,626  | 255,785   |  |  | 2,826,550                                     | 5,291                                     |  |  |  |
| Common Stock                | 2,288  | 1,287     |  |  | 925   | 76  |  |  |  |
| Derivatives                 | 983  | -         |  |  | 983   | -   |  |  |  |
| Cash and cash equivalents   | 1,826  | 1,826     |  |  | -   | -   |  |  |  |
| Short-Term investments      | 285,002  | -         |  |  | 285,002                                       | -   |  |  |  |
| Other Long-Term Investments | 193,249  | -         |  |  | -   | 193,249                                   |  |  |  |

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)

**Recurring Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

|  | Other Long-Term Investments | Common Stock | Fixed Maturities | Total    |
|--|-----------------------------|--------------|------------------|----------|
| <b>For the Nine months ended September 30, 2009</b>  |                             |              |                  |          |
| Beginning Balance at December 31, 2008               | 290,692                     | 249          | 4,296            | 295,237  |
| Total gains (losses)                                 |                             |              |                  |          |
| Included in earnings                                 | (7,726)                     | -            | 1                | (7,725)  |
| Included in other comprehensive income               | (81,331)                    | (173)        | 303              | (81,201) |
| Purchases, issuances, and settlements                | (8,386)                     | -            | (1,726)          | (10,112) |
| Transfers in and /or out of Level 3                  | -                           | -            | 2,417            | 2,417    |
| Ending Balance at September 30, 2009                 | 193,249                     | 76           | 5,291            | 198,616  |
| <b>For the Three Months Ended September 30, 2009</b> |                             |              |                  |          |
| Beginning Balance at July 1, 2009                    | 213,481                     | 76           | 6,226            | 219,783  |
| Total gains (losses)                                 |                             |              |                  |          |
| Included in earnings                                 | -                           | -            | 2                | 2        |
| Included in other comprehensive income               | (18,264)                    | -            | 63               | (18,201) |
| Purchases, issuances, and settlements                | (1,968)                     | -            | (557)            | (2,525)  |
| Transfers in and /or out of Level 3                  | -                           | -            | (443)            | (443)    |
| Ending Balance at September 30, 2009                 | 193,249                     | 76           | 5,291            | 198,616  |

The table below summarizes the fair value and balance sheet location of the Company's outstanding derivatives at September 30, 2009 and December 31, 2008.

**Fair Values of Derivative Instruments**

(\$ in thousands)

**Asset Derivatives**

|  | As of September 30, 2009 |            | As of December 31, 2008 |            |
|--|--------------------------|------------|-------------------------|------------|
|  | Balance Sheet Location   | Fair Value | Balance Sheet Location  | Fair Value |
| Payor Swaptions  | Derivative Instruments   | \$983      | Derivatives Instruments | \$507      |
| <b>Total derivatives not designated as hedging instruments</b> |                          | \$983      |                         | \$507      |
| <b>Total derivatives</b>                                       |                          | \$983      |                         | \$507      |

The table below summarizes the fair value and income statement location of the Company's outstanding derivatives at September 30, 2009 and September 30, 2008.

| Derivatives Not Designated as Hedging Instruments<br>(\$ in thousands) | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative<br>Nine months ended September 30, |            |
|--|---|--|------------|
|  |   | 2009   | 2008       |
| Payor Swaptions  | Realized investment gains (losses)                            | \$ 477   | \$ (3,079) |
| <b>Total</b>   |   | \$ 477   | \$ (3,079) |

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

### General

Presidential Life Corporation ("the Company or Corporation"), through its wholly-owned subsidiary, Presidential Life Insurance Company ("Insurance Company"), is engaged in the sale of insurance products with two primary lines of business: individual annuities and individual life insurance. Our revenues are derived primarily from premiums received from the sale of annuity contracts and universal life insurance policies, premiums received for whole life and term life insurance products and gains (or losses) from our investment portfolio.

For financial statement purposes, our revenues from the sale of whole life and term 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 or term life insurance products and life contingency annuities are reported as premium income on our financial statements. Premiums from the sale of deferred annuities, universal life insurance products and annuities without life contingencies are not reported as premium revenues, but rather are reported as additions to policyholders' account balances. From 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.

Profitability in the Insurance Company's individual annuities and individual life insurance depends largely on the size of its inforce block, the adequacy of product pricing and underwriting discipline, the efficiency of its claims and expense management, and the performance of the investment portfolio.

When we use the term "We," "Us" and "Our" we mean Presidential Life Corporation, a Delaware Corporation, and its consolidated subsidiaries.

In this discussion we have included statements that may constitute "forward-looking statements" within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control. These statements may relate to our future plans and objectives. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results may differ, possibly materially, from the results indicated in these forward-looking statements.

### Executive Overview

Negative market conditions have significantly impacted the financial markets and accordingly, the Company's investments and revenues. The volatility and disruption in today's economy has reached unprecedented levels and the adverse changes that have come about have negatively affected our results of operations. Our limited partnership portfolio has been significantly affected in this recession and their returns, once robust, have turned negative in the first three quarters of 2009. This coupled with very low returns from our short-term investment portfolio and realized investment losses, has resulted in a net loss during the first nine months of 2009.

### Results

Basic earnings (loss) per share were \$(.34) and \$.72 for the nine-month periods ended September 30, 2009 and 2008, respectively. Our total revenues in the first nine months of 2009 and 2008 were approximately \$160.6 million and approximately \$222.1 million, respectively. The decrease from 2008 to 2009 was primarily due to a decrease in net investment income from \$210.3 million in 2008 to \$126.0 million in 2009, a decrease of approximately \$84.3 million.

### Pricing

Management believes that the Company is able to offer its products at competitive prices to its 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, thus causing their policies 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. Management evaluates whether temporary or other than temporary impairments have occurred on a case-by-case basis. Management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause and decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by the Company in the other than temporary impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been below amortized cost; (ii) whether the issuer is experiencing significant financial difficulties; (iii) financial difficulties being experienced by an entire industry sector or sub-sector; (iv) economically depressed geographic locations; (v) situations where the issuer, series of issuers or industry has a catastrophic type of loss or has exhausted natural resources; (vi) in situations where it is determined that an impairment is attributable to changes in market interest rates, the Corporation's ability and intent to hold impaired securities until recovery of fair value at or above cost; and (vii) other subjective factors, including concentrations and information obtained from regulators and rating agencies. 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.

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. 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, equity price 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. To help address this risk, the Company has entered into a series of Payor Swaption investments designed to protect the Company against an instantaneous rise in the interest rates of 300 basis points (See the discussion below in "Asset/Liability Management" under Management's Discussion and Analysis.)

### **Risk-Based Capital**

Under the NAIC's 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, 2008, the Insurance Company's Company Action Level was \$80.7 million and the Mandatory Control Level was \$28.3 million. The Insurance Company's adjusted capital at December 31, 2008 was \$370.9 million, which exceeds all four action levels.

### **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 Corporation's or the Insurance 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 persistency of the Insurance Company's business may be adversely impacted.

In April 2009, A.M. Best Company reaffirmed the Insurance Company's rating at "B+" (Good) with a stable outlook. At the time of the B+ rating, publications of A.M. Best indicated that the "B+" rating was assigned to those companies that, in A.M. Best's opinion, have achieved a very good overall performance when compared to the norms of the insurance industry and that generally have demonstrated a good ability to meet their respective policyholder and other contractual obligations over a long period of time. The B+ rating is within A.M. Best's "Secure" classification, along with A++, A+, A, A-, and B++ ratings.

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.

In February 2009, the Company repaid its corporate debt in full. The senior notes had been rated by Standard and Poor's (S&P) and Moody's at the time of repayment at B+ (positive) and B1 (positive), respectively. In consideration of this repayment the Company decided that it was no longer necessary to retain the rating services and ongoing credit surveillance by S&P and Moody's. The Company will maintain the Financial Strength Rating services of A.M. Best & Company.

In June 2008, Fitch Ratings affirmed the Insurance Company's Aq rating, "Strong," - possessing strong capacity to meet policyholder and contract obligations based solely on the Company's stand-alone financial statement characteristics. Fitch Ratings found that risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.

## **Results of Operations**

A Comparison of the significant items for the nine months ended September 30, 2009 with the same period in 2008 and a comparison of significant items for the three months ended September 30, 2009 with the same period in 2008.

### **Annuity Considerations and Life Insurance Premiums**

Total annuity considerations and life insurance premiums decreased from approximately \$37.5 million for the nine months ended September 30, 2008 to approximately \$36.9 million for the nine months ended September 30, 2009. Of this amount, annuity considerations were approximately \$26.4 million for the nine months ended September 30, 2009 as compared to approximately \$26.2 million for the nine months ended September 30, 2008. The decrease is primarily due to decreased sales in our ordinary life policies. In accordance with GAAP, sales of single premium deferred annuities and single premium immediate income annuities without life contingencies are not reported as insurance revenues, but rather as additions to policyholder account balances. Based on statutory accounting, revenue from sales of single premium annuities were approximately \$170.4 million and approximately \$132.6 million during the nine months ended September 30, 2009 and September 30, 2008, respectively, an increase of approximately \$37.8 million or approximately 28.5% due to increased sales in deferred annuities.

### **Policy Fee Income**

Universal life and investment type policy fee income was approximately \$1.6 million for the nine-month period ended September 30, 2009 and approximately \$2.1 million for the nine-month period ended September 30, 2008.

### **Net Investment Income**

Net investment income totaled approximately \$126.0 million during the first nine months of 2009, as compared to approximately \$210.3 million during the first nine months of 2008. This represents a decrease of approximately \$84.3 million. This decrease is primarily due to a decrease in income from limited partnerships of \$67.4 million, a decrease in income from short-term investments of \$7.2 million and a decrease in income from fixed maturities of \$7.6 million. The decrease in investment income from the limited partnerships is largely reflective of the global economic recession and the inherent volatility in the Company's limited partnership portfolio. The decrease in income from short-term investments was due to lower short-term interest rates. The Company's ratios of net investment income to average cash and invested assets (based on book value) for the nine month periods ended September 30, 2009 and September 30, 2008 were 4.75% and 7.56%, respectively.

The Company had net investment income of \$46.6 million and \$75.1 million for the three month periods ended September 30, 2009 and September 30, 2008, respectively. The variance of approximately \$28.6 million is primarily due to the decrease in income from the limited partnerships.

### **Net Realized Investment Gains and Losses**

Realized investment losses amounted to approximately \$6.7 million during the first nine months of 2009, as compared to investment losses of approximately \$29.6 million during the first nine months of 2008. The increase of approximately \$22.9 million was primarily due to an increase on fixed maturities of approximately \$14.1 million in the first three quarters of 2009 that was supplemented by increases on common stocks and the payor swaptions of approximately \$5.1 million and \$3.6 million, respectively. The realized loss on fixed maturities was primarily due to write downs in the bond portfolio. The change in the fair value of the derivative instruments is reflected in the income statement as a realized loss or gain.

When impairments are determined to be other than temporary, the Company adjusts the book value to reflect the fair value, as appropriate, on a quarterly basis and the amount of the impairments are recorded as realized investment losses in the income statement. Realized investment gains (losses) also result from sales of certain equities and convertible securities, and calls and sales of fixed maturity investments in the Company's investment portfolio.

The Company had realized investment losses of \$2.6 million for the three months ended September 30, 2009 and \$26.1 million in realized losses for the three months ended September 30, 2008. The increase of approximately \$23.5 million is primarily due to increases in fixed maturities and common stock.

### **Total Benefits and Expenses**

Total benefits and expenses for the three months ended September 30, 2009, totaled \$60.1 million, a decrease of \$2.3 million from the \$62.4 million recorded for the three months ended September 30, 2008. For the nine months ended September 30, 2009, total benefits and expenses aggregated approximately \$175.9 million, as compared to approximately \$189.6 million for the nine months ended September 30, 2008. This represents a decrease of approximately \$13.7 million from the first nine months of 2008. The reasons for this decrease are discussed in the following paragraphs.

### **Interest Credited and Benefits to Policyholders**

Interest credited and other benefits to policyholders amounted to approximately \$156.2 million for the nine months ended September 30, 2009, as compared to approximately \$158.6 million for the nine months ended September 30, 2008. This represents a decrease of \$2.4 million. The decrease is primarily due to a reduced amount of annuity policies in force from 2008 and therefore less interest and benefits paid to policyholders.

The Insurance Company's average credited rate for reserves and account balances for the nine months ended September 30, 2009 was greater than the Company's ratio of net investment income to mean assets (based on book value). For the nine months ended September 30, 2008, the Insurance Company's average credited rate for reserves and account balances was less than the Company's ratio of net investment income to mean assets (based on book value). There can be no assurance that the Company's ratio of net investment income to book value mean assets (the "Spread"), will not decline in future periods or that such decline will not have a material adverse effect on the Company's financial condition and results of operations. Depending, in part, upon competitive factors affecting the industry in general, and the Company, in particular, the Company may, from time to time, change the average credited rates on certain of its products. There can be no assurance that the Company will be able to reduce such rates or that any such reductions will broaden the Spread. The actual spread, excluding capital gains, for the nine months ended September 30, 2009 was (.49)% compared to 2.34% for the same period in 2008.

### **Interest Expense on Notes Payable**

The interest expense on the Company's notes payable amounted to approximately \$.8 million for the nine months ended September 30, 2009, and approximately \$5.9 million for the nine months ended September 30, 2008. On February 17th, 2009, the Corporation retired the remaining \$67 million of its 7 7/8%, \$100 million Senior Note, which represented all of the Company's outstanding debt.

### **General Expenses, Taxes and Commissions**

General expenses, taxes and commissions to agents totaled approximately \$20.9 million for the nine months ended September 30, 2009, as compared to approximately \$20.2 million for the nine months ended September 30, 2008. This represents an increase of approximately \$0.7 million. The increase was primarily due to an increase in the sale of annuities resulting in increased commissions on new premiums.

### **Deferred Policy Acquisition Costs ("DAC")**

The change in the net DAC for the nine months ended September 30, 2009 resulted in a benefit of approximately \$2.0 million, as compared to a charge of approximately \$4.9 million for the nine months ended September 30, 2008.

The change in net DAC is attributable to the costs associated with product sales, which have been deferred, (accounting for a credit of approximately \$8.0 million in the first nine months of 2009 and \$6.1 million in the first nine months of 2008). Another portion of such change is due to net amortization of the DAC of deferred annuity business. Such changes accounted for charges of approximately \$2.3 million in the first nine months of 2009 as compared to approximately \$6.7 million in the first nine months of 2008. The balance of the change in net DAC is due to the net amortization of the DAC for the remainder of the business including traditional life, universal life and immediate annuities (accounting for charges of approximately \$3.7 million for the first nine months 2009 and approximately \$4.2 million for the first nine months of 2008).

The change in the net DAC for the three months ended September 30, 2009 resulted in a benefit of approximately \$0.1 million, as compared to a charge of approximately \$.8 million for the three months ended September 30, 2008.

The DAC balance is 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. The unrealized gain caused the resulting DAC balance to decrease by \$7.0 million at September 30, 2009.

### **Income Before Income Taxes**

For the reasons discussed above, income (loss) before income taxes amounted to approximately (\$15.3) million for the nine months ended September 30, 2009, as compared to approximately \$32.6 million for the nine months ended September 30, 2008 and \$0.1 million for the three months ended September 30, 2009, as compared to approximately \$1.0 million for the three months ended September 30, 2008.

### **Income Taxes**

Income tax (benefit) expense was approximately \$33,000 for the three months ended September 30, 2009 as compared to \$.3 million for the three months ended September 30, 2008. Income tax (benefit) expense was approximately (\$5.3) million for the nine months ended September 30, 2009 as compared to \$11.2 million for the nine months ended September 30, 2008. The income tax benefit in 2009 is attributable to the current year's loss on income.

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, 2009 and September 30, 2008 to be 34.5%.

Federal income tax recoverable amounted to \$24.9 million at September 30, 2009. This is attributable to prior year's tax overpayments as well as the tax benefits incurred from the first nine months 2009 net loss. The Company has the ability to carry-back these losses to prior years.

### **Net Income**

For the reasons discussed above, the Company had a net loss of approximately \$10.0 million during the nine months ended September 30, 2009 and a net income of approximately \$21.3 million during the nine months ended September 30, 2008. The Company had a net income of \$0.1 million for the three months ended September 30, 2009 and a net income of \$0.6 million for the three months ended September 30, 2008.

### **Accumulated Other Comprehensive Income**

Accumulated other comprehensive losses decreased from approximately \$137.2 million at December 31, 2008 to \$2.3 million at September 30, 2009. The decrease was due to a decrease in net unrealized investment losses, net of taxes, during the first nine months of the year of approximately \$134.9 million. Tightening bond spreads and general economic and market conditions were the primary reasons for the decrease.

### **Liquidity and Capital Resources**

The Company is an insurance holding company and its primary uses of cash are debt service obligations, 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 2009, the Company's Board of Directors declared quarterly cash dividends of \$0.0625 per share payable on April 1, 2009, July 1, 2009 and October 1, 2009. During the first nine months of 2009 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 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). 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 2008, the Insurance Company made \$35.7 million in dividend payments to the Company. During the first nine months of 2009, the Insurance Company made two dividend payments totaling \$17.8 million to the Company.

The key need for liquidity in the Insurance Company is the need to fund policy benefit payments on surrendered or expired annuities. Approximately 44.5% 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. Due to increased competition, and an increasing amount of policies with expiring surrender charges, we experienced an increase in surrenders on our annuity products in 2007 and 2008. Policyholder account balance surrenders totaled approximately \$97.8 million and \$148.8 million for the nine-month periods ending September 30, 2009 and 2008, respectively. In 2009, approximately 6.9% 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 2009 is approximately 7.9% on an annualized basis. As of December 31, 2008, the Company's ratio of surrenders to average reserves on its deferred annuity business was 12.5%.

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, its payor swaption investments and available liquidity of short-term investments, consisting of A1, P1 paper with maturities of less than 30 days and have operated as a buffer to the Company against the impact of interest sensitive surrenders in a rising interest rate environment.

The Company's life 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 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 insurance claims would have a material impact on the Company's liquidity.

The Company's asset/liability management process is designed to limit the duration mismatch of its assets and liabilities in the event that a substantial call on liabilities required the Company to liquidate some investments. In such event, the Company would experience a decline in overall investment income due to the sale of higher yielding invested assets. The Company would attempt to minimize the loss of income by the selection for sale of those shorter-term assets, which would produce the highest possible price. Moreover, the mix of the Company's products between deferred and immediate annuities provides the Company with some protection against excessive calls on liabilities.

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 (used in) provided by 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 (\$1.0) million and \$28.7 million during the nine months ended September 30, 2009 and 2008, respectively. Net cash provided by the Company's investing activities (principally reflecting investments purchased less investments called, redeemed or sold) was approximately \$57.2 million, and \$110.7 million during the nine months ended September 30, 2009 and 2008, respectively.

For purposes of the Company's condensed 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 (\$58.2) million and (\$140.2) million during the nine months ended September 30, 2009 and 2008, 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 Corporation'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 reasonable 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 7.6% and 9.3% as of September 30, 2009 and December 31, 2008, respectively). The effective duration of the Company's fixed maturity portfolio was approximately 5.2 years and 5.4 years as of September 30, 2009 and September 30, 2008, respectively. The Company's fixed maturity investments are all classified as available for sale and may be sold in response to, among other things, changes in market interest rates, changes in the security's prepayment risk, the Company's need for liquidity and various other economic conditions.

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 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.

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, 2009 and December 31, 2008, approximately 6.9% and 4.6%, respectively, of the Insurance Company's total admitted assets were invested in below investment grade debt securities.

The Company's portfolio includes below investment grade fixed maturity debt securities, of which approximately 99.96% were originally purchased as investment grade investments. All of these are classified as available for sale and reported at fair value. As of September 30, 2009 and December 31, 2008, the carrying value of these securities was approximately \$241.4 million and \$142.3 million, respectively, (representing approximately 6.6% and 4.2% of the Company's investment portfolio, respectively).

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, 2009, the carrying value of the Company's limited partnerships was approximately \$193.2 million or 5.3% 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, 2009, the Company's investments in equity securities, including limited partnership interests, were approximately 5.4% of the Company's total invested assets. Such investments are included in the Company's consolidated balance sheet under the heading "Other long-term investments." The Company is committed, if called upon during a specified period, to contribute an aggregate of approximately \$99.2 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 \$5.9 million, \$4.5 million, \$38.0 million, \$45.7 million and \$5.1 million will expire in 2009, 2010, 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. The Company may make selective investments in additional limited partnerships as opportunities arise. 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, the District of Columbia and Puerto Rico 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. Recent failures of substantially larger insurance companies could result in future assessments in material amounts.

## **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. The following is a discussion of the Company's primary market risk exposures and how those exposures are currently managed as of September 30, 2009.

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 cause asset prices to rise, while rate increases cause 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. Additionally, the Company has utilized an asset liability management strategy, in which the Company hedged against the risks posed by a rapid and sustained rise in interest rates by entering into a form of derivative transaction known as a Payor Swaption. The effect of this transaction would be to lessen the negative impact on the Insurance Company of a significant increase in interest rates. With Payor Swaptions, the Company should be able to maintain more competitive crediting rates to policyholders when interest rates rise.

The Company has established an International Swaps and Derivatives Association "ISDA" Credit Support Agreement with the counterparty against the Payor Swaption currently held by Presidential Life. The counterparty is a major money center bank that carries credit ratings of Aa3 by Moody's and A+ by S&P. The ISDA Credit Support Agreement requires this counterparty to post collateral in the event that the bank credit rating falls below A3 by Moody's and A- by S&P. This contract expires in June 2010 at a fixed strike rate based on the 10-year swap rate. The Company has determined that the Payor Swaption represent a "non-qualified hedge" and has adopted accounting procedures consistent with the provisions of ASC topic 815(formerly FAS 133). The market value of the Payor Swaption as of September 30, 2009 was \$983,342. A variety of factors affect the value of this Payor Swaption, including overall Treasury interest rate levels, swap spreads, overall market volatility and the length of time remaining before the expiration of the Payor Swaption. This investment is classified on the balance sheet as a "Derivative Instrument". Under ASC topic 815, the value of the Payor Swaption is recognized at "fair value" (market value), with any resulting change in fair value reflected in the statement of income as a realized loss or gain. The change in market value for the first three quarters of 2009 was a gain of \$476,702. The Company has determined that the average fair value for the first nine months of 2009 was \$1,880,766.

The Insurance 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 Insurance Company may be required to increase its reserves to satisfy its statutory accounting requirements. Based on testing as of December 31, 2008, the Insurance Company held a reserve of \$68 million.

### **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**

The accompanying Notes to Consolidated Financial Statements contain information regarding payments required under existing obligations. The following presents a summary of the Company's significant contractual obligations.

#### **CONTRACTUAL OBLIGATIONS TABLE**

Payment Due By Period (in thousands)

|   | <u>Less than<br/>1 Year</u> | <u>1-3 Years</u> | <u>4-5 Years</u> | <u>After 5 Years</u> | <u>Total</u> |
|---|-----------------------------|------------------|------------------|----------------------|--------------|
| <b><u>Contractual<br/>Obligations</u></b>       |                             |                  |                  |                      |              |
| Unfunded Limited<br>Partnership Commitments (1) | \$ 5,857                    | \$ 88,210        | \$ 5,084         | \$ -                 | \$ 99,151    |
| FIN 48 Liabilities                              | \$ -                        | \$ 690           | \$ -             | \$ -                 | \$ 690       |
| Policy Liabilities (2)                          | \$ 484,470                  | \$ 893,237       | \$ 751,654       | \$ 2,549,466         | \$ 4,678,827 |

<sup>(1)</sup> See Note 1(C) "Summary of Significant Accounting Policies, Investments", of the consolidated financial statements

<sup>(2)</sup> The difference between the recorded liability of \$3,171.1 million, and the total payment obligation amount of \$4,678.8 million, is \$1,507.7 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 \$4,678.8 million, \$3,032.2 million, or 64.8%, 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.

On February 17th, 2009, the Corporation retired the remaining \$66.5 million of its 7 7/8%, \$100 million Senior Note. This was financed through the sale of short-term commercial paper, fixed maturities and an upstream dividend payment from the Insurance Company in January 2009 in the amount of \$16 million.

### **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, and 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 for the year ended December 31, 2008.

#### **New Accounting Pronouncements**

See Note 1 of the condensed 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 for the fiscal year ended December 31, 2008. During the first nine months of 2009, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2008.

**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, 2009, 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. During or subsequent to the nine month period ended September 30, 2009, there were no changes in our internal controls that have materially affected or are reasonably likely to materially affect, internal controls 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, 2009, 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2008. In connection with its preparation of this quarterly report, management has reviewed and considered these risk factors and has determined that there have been material changes to the Company's risk factors since the date of filing the Annual Report. The following additional risk factor should be read in conjunction with the risk factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

#### ***Our business could be negatively affected as a result of the actions of our current Chairman***

On October 2, 2009, our current Chairman, Herbert Kurz filed a Schedule 13-D, stating his intention to commence a consent solicitation for the purposes of removing from office, without cause, all or a majority of the current directors (other than Mr. Kurz) and electing in their place a slate of nominees to be proposed by Mr. Kurz. In this connection, Mr. Kurz is engaging in discussions with potential director nominees and with counsel, and recently has engaged a proxy solicitation firm with respect to a solicitation of consents from the Company's shareholders for the foregoing purposes. If Mr. Kurz or any other activist shareholders wage a subsequent proxy contest, our business could be adversely affected because:

- Responding to proxy contests and other actions by activist shareholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees;
- Perceived uncertainties as to our future direction may make it more difficult to attract and retain qualified personnel and business partners; and
- If individuals are elected to our board of directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plan and create additional value for our stockholders.

These actions could cause our stock price to experience periods of volatility.

Formatted Table

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

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. 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

None

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 9, 2009

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

Date: November 9, 2009

/s/ Charles J. Snyder  
Charles J. Snyder, Chief Financial  
Officer of the Registrant

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 9, 2009

/s/Donald L. Barnes

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

Date: November 9, 2009

/s/ Charles Snyder

-----  
Charles J. Snyder,  
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 9, 2009

/s/Donald L. Barnes

-----  
Donald L. Barnes  
Chief Executive Officer

Exhibit 31.2

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

I, Charles Snyder, 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 9, 2009

/s/Charles Snyder

-----  
Charles Snyder  
Treasurer and Chief Financial Officer

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, 2009 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

-----  
Donald L. Barnes  
Chief Executive Officer  
November 9, 2009

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, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Snyder, Treasurer and 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/Charles Snyder

-----  
Charles Snyder  
Treasurer and Chief Financial Officer  
November 9, 2009