Bellos Alex
Form 4
April 24, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Bellos Alex

(Last) (First) (Middle)

3250 VAN NESS AVE.

(Street)

SAN FRANCISCO, CA 94109

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WILLIAMS SONOMA INC [WSM]

3. Date of Earliest Transaction (Month/Day/Year)
04/20/2018

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
PRESIDENT WEST ELM BRAND

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

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

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

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

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SEC 1474 (9-02)

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

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Restricted Stock Units	(2)	04/20/2018		M			653	(3)	(4)	Common Stock	653	$ 0
Restricted Stock Units	(2)	04/22/2018		M			300	(5)	(4)	Common Stock	300	$ 0

Reporting Owners

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

Signatures

/s/ Phil Louridas, attorney-in-fact for Alex Bellos	04/24/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents the number of shares withheld upon vesting of restricted stock units to cover tax withholding obligations.

(2) Each restricted stock unit represents a contingent right to receive one share of WSM common stock.

(3) The restricted stock units vest in four equal installments on each anniversary of the grant date in 2016, 2017, 2018 and 2019.

(4) The restricted stock units are cancelled upon vesting and delivery of shares of WSM common stock.

(5) The restricted stock units vest in four equal installments on each anniversary of the grant date in 2015, 2016, 2017 and 2018.

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268,593

Deferred income taxes
29,808

—

Other liabilities
635,533

380,529

Total liabilities
31,555,951

29,466,040

Stockholders' equity:

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

—

Common stock, par value $1 per share, 125,000,000 shares authorized; issued and outstanding:
2012 - 60,208,754 shares (excluding 5,124,749 treasury shares);
2011 - 57,836,540 shares (excluding 5,616,595 treasury shares)
60,209

57,837

Additional paid-in capital
482,563

468,281

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

(3,620
)
Accumulated other comprehensive income
579,872

457,229

Retained earnings
458,182

428,952

Total stockholders' equity
1,577,651

1,408,679

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

$
30,874,719

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)
(Unaudited)

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

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

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

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

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share data)
(Unaudited)

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

See accompanying notes to unaudited consolidated financial statements.

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

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

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Explanation of Responses:

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

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

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

1. Significant Accounting Policies
Consolidation and Basis of Presentation
The accompanying consolidated financial statements of American Equity Investment Life Holding Company (“we”, “us” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires the use of management estimates. For further information related to a description of areas of judgment and estimates and other information necessary to understand our financial position and results of operations, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.
During 2011, we discovered a prior period error related to policy benefit reserves for our single premium immediate annuity products. Accordingly, we made an adjustment in the first quarter of 2011 which resulted in a decrease of policy benefit reserves and a decrease in interest sensitive and index product benefits of $4.2 million. On an after-tax basis, the adjustment resulted in a $2.7 million increase in net income for the six months ended June 30, 2011.
Adopted Accounting Pronouncements
In October 2010, as a result of a consensus of the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force (EITF), the FASB issued an accounting standards update (ASU) that modifies the definition of the types of costs incurred that can be capitalized in the acquisition of new and renewal insurance contracts. This guidance defines the costs that qualify for deferral as incremental direct costs that result directly from and are essential to successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. In addition, it lists certain costs as deferrable as those that are directly related to underwriting, policy issuance and processing, medical and inspection, and sales force contract selling as deferrable, as well as the portion of an employee's total compensation related directly to time spent performing those activities for actual acquired contracts and other costs related directly to those activities that would not have been incurred if the contract had not been acquired. This amendment to current GAAP became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Other operating costs and expenses for the three and six months ended June 30, 2012, increased $2.0 million and $5.0 million, respectively, due to the prospective adoption of this ASU effective January 1, 2012, which decreased net income $1.3 million and $3.1 million and decreased diluted earnings per share $0.02 and $0.05 for the three and six months ended June 30, 2012, respectively.
In May 2011, the FASB issued an ASU that addresses fair value measurement and disclosure as part of its convergence efforts with the International Accounting Standards Board. The guidance is intended to create common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. This ASU changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Some changes clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The disclosure requirements add information about transfers between Level 1 and Level 2 of the fair value hierarchy, information about the sensitivity of a fair value measurement categorized within Level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair

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

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

New Accounting Pronouncements

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

Significant Accounting Policy - Deferred Policy Acquisition Costs
Our accounting policy for deferred policy acquisition costs which follows, has been updated from our Form 10-K for the year ended December 31, 2011 to reflect the adoption of new accounting standards.
To the extent recoverable from future policy revenues and gross profits, certain incremental direct costs that vary with and are directly related to the production of successful new business are not expensed when incurred but instead are capitalized as deferred policy acquisition costs. Deferred policy acquisition costs are subject to loss recognition testing on a quarterly basis or when an event occurs that may warrant loss recognition. Deferred policy acquisition costs consist primarily of commissions and certain costs of policy issuance.
For annuity products, these capitalized costs are being amortized generally in proportion to expected gross profits from investment spreads, including the cost of hedging the fixed indexed annuity obligations, and, to a lesser extent, from product charges and mortality and expense margins. That amortization is adjusted retrospectively through an unlocking process when estimates of current or future gross profits/margins (including the impact of net realized gains on investments and net OTTI losses recognized in operations) to be realized from a group of products are revised. Deferred policy acquisition costs are also adjusted for the change in amortization that would have occurred if available for sale fixed maturity securities and equity securities had been sold at their aggregate fair value at the end of the reporting period and the proceeds reinvested at current yields. The impact of this adjustment is included in accumulated other comprehensive income (loss) within consolidated stockholders' equity, net of applicable taxes.

2. Fair Values of Financial Instruments
The following sets forth a comparison of the fair values and carrying amounts of our financial instruments:

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

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

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

Level 1—	Quoted prices are available in active markets for identical financial instruments as of the reporting date. We do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.
Level 2—	Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.
Level 3—	Models and other valuation methodologies using significant inputs that are unobservable for financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in Level 3 are securities for which no market activity or data exists and for which we used discounted expected future cash flows with our own assumptions about what a market participant would use in determining fair value.

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

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

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

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

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

Fixed maturity securities and equity securities

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

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

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

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

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

Mortgage loans on real estate

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

Derivative instruments

The fair values of derivative instruments, primarily call options, are based upon the amount of cash that we will receive to settle each derivative instrument on the reporting date. These amounts are obtained from each of the counterparties using industry accepted valuation models and are adjusted for the nonperformance risk of each counterparty net of any collateral held. Inputs include market volatility and risk free interest rates and are used in income valuation techniques in arriving at a fair value for each option contract. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options purchased to fund our fixed index annuity policy liabilities.

Other investments

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

Cash and cash equivalents
Amounts reported in the consolidated balance sheets for these instruments are reported at their historical cost which approximates fair value due to the nature of the assets assigned to this category.
Interest rate swaps and caps
The fair values of our pay fixed/receive variable interest rate swaps and interest rate caps are obtained from third parties and are determined by discounting expected future cash flows using projected LIBOR rates for the term of the swaps and caps.
2015 notes hedges
The fair value of these call options is determined by a third party who applies market observable data such as our common stock price, its dividend yield and its volatility, as well as the time to expiration of the call options to determine a fair value of the buy side of these options.
Policy benefit reserves, coinsurance deposits and SPIA benefit reserves
The fair values of the liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost we would incur to extinguish the liability (i.e., the cash surrender value) as these contracts are generally issued without an annuitization date. The coinsurance deposits related to the annuity benefit reserves have fair values determined in a similar fashion. For period-certain annuity benefit contracts, the fair value is determined by discounting the benefits at the interest rates currently in effect for newly purchased immediate annuity contracts. We are not required to and have not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value. Policy benefit reserves, coinsurance deposits and SPIA benefit reserves are not measured at fair value on a recurring basis. All of the fair values presented within these categories fall within Level 3 of the fair value hierarchy as most of the inputs are unobservable market data.
Notes payable
The fair value of the convertible senior notes is based upon pricing matrices developed by a third party pricing service when quoted market prices are not available and are categorized as Level 2 within the fair value hierarchy. Notes payable are not remeasured at fair value on a recurring basis.
Subordinated debentures
Fair values for subordinated debentures are estimated using discounted cash flow calculations based principally on observable inputs including our incremental borrowing rates, which reflect our credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued. These fair values are categorized as Level 2 within the fair value hierarchy. Subordinated debentures are not measured at fair value on a recurring basis.
2015 notes embedded derivatives
The fair value of this embedded derivative is determined by pricing the call options that hedge this potential liability. The terms of the conversion premium are identical to the 2015 notes hedges and the method of determining fair value of the call options is based upon observable market data.
Fixed index annuities - embedded derivatives
We estimate the fair value of the embedded derivative component of our fixed index annuity policy benefit reserves at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk free interest rates adjusted for our nonperformance risk related to those liabilities. The projections of policy contract values are based on our best estimate assumptions for future policy growth and future policy decrements. Our best estimate assumptions for future policy growth include assumptions for the expected index credit on the next policy anniversary date which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values.

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Explanation of Responses:

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

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

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

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

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

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

The most sensitive assumption in determining policy liabilities for fixed index annuities is the rates used to discount the excess projected contract values. As indicated above, the discount rate reflects our nonperformance risk. If the discount rates used to discount the excess projected contract values at June 30, 2012, were to increase by 100 basis points, the fair value of the embedded derivatives would decrease by $195.5 million recorded through operations as a decrease in the change in fair value of embedded derivatives and there would be a corresponding decrease of $117.7 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as an increase in amortization of deferred policy acquisition costs and deferred sales inducements. A decrease by 100 basis points in the discount rate used to discount the excess projected contract values would increase the fair value of the embedded derivatives by $218.2 million recorded through operations as an increase in the change in fair value of embedded derivatives and increase our combined balance for deferred policy acquisition costs and deferred sales inducements by $132.1 million recorded through operations as a decrease in amortization of deferred policy acquisition costs and deferred sales inducements.

3. Investments

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

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

During the six months ended June 30, 2012 and 2011, we received $2.8 billion and $2.9 billion, respectively, in redemption proceeds related to calls of our callable United States Government sponsored agency securities and public and private corporate bonds, of which $1.7 billion were classified as held for investment for the six months ended June 30, 2012. There were no calls of held for investment securities during the six months ended June 30, 2011. We reinvested the proceeds from these redemptions primarily in United States Government sponsored agencies, corporate securities and other asset backed securities. At June 30, 2012, 33% of our fixed income securities have call features and 1% ($0.1 billion) were subject to call redemption. Another 14% ($2.6 billion) will become subject to call redemption during the next twelve months (principally the last two quarters of 2012 and the second quarter of 2013).

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

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