PRIMUS GUARANTY LTD
Form SC 13D/A
August 18, 2011

OMB APPROVAL
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 13D

Under The Securities Exchange Act of 1934
(Amendment No. 2)*

Primus Guaranty, Ltd.
(Name of Issuer)

Common Stock, $0.08 par value
(Title of Class of Securities)

G72457107
(CUSIP Number)

Stephen Krug, Chief Operating Officer
Second Curve Capital, LLC
237 Park Avenue, 9th Floor
New York, New York 10017
Tel: 1 (646) 563-7610
(Name, Address and Telephone Number of Person Authorized to Receive
Notices and Communications)

August 15, 2011
(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e),

13d-1(f) or 13d-1(g), check the following box [x].

CUSIP No. G72457107

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Second Curve Capital, LLC

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*
(a) [_]
(b) [X]

3. SEC USE ONLY

4. SOURCE OF FUNDS*

AF

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e) [_]

6. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

7. SOLE VOTING POWER

0

8. SHARED VOTING POWER

5,626,317

9. SOLE DISPOSITIVE POWER

0

10. SHARES DISPOSITIVE POWER

5,626,317

11.

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

5,626,317

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* [_]

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

15.6%

14. TYPE OF REPORTING PERSON*

OO

CUSIP No. G72457107

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Thomas K. Brown

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*
(a) [_]
(b) [X]

3. SEC USE ONLY

4. SOURCE OF FUNDS*

AF

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED
PURSUANT TO ITEMS 2(d) OR 2(e) [_]

6. CITIZENSHIP OR PLACE OF ORGANIZATION

United States of America

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

7. SOLE VOTING POWER

0

8. SHARED VOTING POWER

5,626,317

9. SOLE DISPOSITIVE POWER

0

10. SHARES DISPOSITIVE POWER

5,626,317

11.

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

5,626,317

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* [_]

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

15.6%

14. TYPE OF REPORTING PERSON*

IN

CUSIP No. G72457107

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Second Curve Partners, L.P.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*
(a) [_]
(b) [X]

3. SEC USE ONLY

4. SOURCE OF FUNDS*

WC

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e) [_]

6. CITIZENSHIP OR PLACE OF ORGANIZATION

New York

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

7. SOLE VOTING POWER

0

8. SHARED VOTING POWER

2,746,773

9. SOLE DISPOSITIVE POWER

0

10. SHARES DISPOSITIVE POWER

2,746,773

11.

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,746,773

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* [_]

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

7.6%

14. TYPE OF REPORTING PERSON*

PN

CUSIP No. G72457107

Item 1. Security and Issuer.

Primus Guaranty, Ltd. Common Stock, par value $0.08 per share (the "Shares")

Clarendon House
2 Church Street
Hamilton
HM 11, Bermuda

Item 2. Identity and Background.

(a-c, f)

This Schedule 13D is being filed by (i) Second Curve Partners, L.P. ("Second Curve Partners"), (ii) Second Curve Capital, LLC ("Second Curve Capital"), the investment manager of Second Curve Partners and other private investment vehicles, and (iii) Thomas K. Brown, the managing member of Second Curve Capital (each of Second Curve Partners, Second Curve Capital and Thomas K. Brown may be referred to herein as a "Reporting Person" and collectively may be referred to as "Reporting Persons").

Second Curve Partners is a New York limited partnership with its principal business address at 237 Park Avenue, 9th Floor, New York, New York 10017.

Second Curve Capital is a Delaware limited liability company with its principal business address at 237 Park Avenue, 9th Floor, New York, New York 10017.

Thomas K. Brown is a United States citizen whose principal business address is c/o Second Curve Capital, LLC, 237 Park Avenue, 9th Floor, New York, New York 10017.

The Shares reported herein are held in the name of Second Curve Partners and other funds and accounts advised by Second Curve Capital.

(d)

None of the Reporting Persons have, during the last five years, been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e)

None of the Reporting Persons have, during the last five years, been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a

result of such proceeding were or are subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, Federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

As of the date hereof Second Curve Capital may be deemed to beneficially own 5,626,317 Shares.

As of the date hereof Thomas K. Brown may be deemed to beneficially own 5,626,317 Shares.

As of the date hereof Second Curve Partners may be deemed to beneficially own 2,746,773 Shares.

No borrowed funds were used to purchase the Shares, other than any borrowed funds used for working capital purposes in the ordinary course of business.

Item 4. Purpose of Transaction.

The Reporting Persons have acquired their Shares of the Issuer for investment. The Reporting Persons evaluate their investment in the Shares on a continual basis. The Reporting Persons have no plans or proposals as of the date of this filing which, other than as expressly set forth below, relate to, or would result in, any of the actions enumerated in Item 4 of the instructions to Schedule 13D.

The Reporting Persons may be in contact with members of the Issuer's management, the members of the Issuer's Board of Directors, and others, including other significant shareholders, regarding alternatives that the Issuer could employ to increase shareholder value.

The Reporting Persons reserve the right to effect transactions that would change the number of shares they may be deemed to beneficially own.

The Reporting Persons further reserve the right to act in concert with any other shareholders of the Issuer, or other persons, for a common purpose should they determine to do so.

Item 5. Interest in Securities of the Issuer.

(a, b)

As of the date hereof, Second Curve Capital may be deemed to be the beneficial owner of 5,626,317 Shares, constituting 15.6% of the Shares of the Issuer based upon the 36,144,073 Shares outstanding as of August 15, 2011.

Second Curve Capital has the sole power to vote or direct the vote of 0 Shares; has the shared power to vote or direct the vote of 5,626,317 Shares; has sole power to dispose or direct the disposition of 0 Shares; and has shared power to dispose or direct the disposition of 5,626,317 Shares.

Second Curve Capital specifically disclaims beneficial ownership in the Shares reported herein except to the extent of its pecuniary interest therein.

As of the date hereof, Thomas K. Brown may be deemed to be the beneficial owner of 5,626,317 Shares, constituting 15.6% of the Shares of the Issuer based upon the 36,144,073 Shares outstanding as of August 15, 2011.

Thomas K. Brown has the sole power to vote or direct the vote of 0 Shares; has the shared power to vote or direct the vote of 5,626,317 Shares; has sole power to dispose or direct the disposition of 0 Shares; and has shared power to dispose or direct the disposition of 5,626,317 Shares.

Thomas K. Brown specifically disclaims beneficial ownership in the Shares reported herein except to the extent of his pecuniary interest therein.

As of the date hereof, Second Curve Partners may be deemed to be the beneficial owner of 2,746,773 Shares, constituting 7.6% of the Shares of the Issuer based upon the 36,144,073 Shares outstanding as of August 15, 2011.

Second Curve Partners has the sole power to vote or direct the vote of 0 Shares; has the shared power to vote or direct the vote of 2,746,773 Shares; has sole power to dispose or direct the disposition of 0 Shares; and has shared power to dispose or direct the disposition of 2,746,773 Shares.

Second Curve Partners specifically disclaims beneficial ownership in the Shares reported herein except to the extent of its pecuniary interest therein.

(c)

The trading dates, number of Shares purchased and sold and price per share for all transactions in the Shares during the past 60 days by the Reporting Persons are set forth in Exhibit B and all such transactions were effected in open market transactions except as noted otherwise in Exhibit B.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

None

Item 7. Material to be Filed as Exhibits.

Exhibit A: Agreement between the Reporting Persons to file jointly

Exhibit B: Schedule of Transactions in the Shares of the Issuer

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Second Curve Capital Partners, L.P.
By: Second Curve Management, LLC
By: Thomas K. Brown, Managing Member

By: /s/ Thomas K. Brown

Second Curve Capital, LLC
By: Thomas K. Brown, Managing Member

By: /s/ Thomas K. Brown

/s/ Thomas K. Brown
Thomas K. Brown

August 18, 2011

Attention: Intentional misstatements or omissions of fact constitute federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

AGREEMENT

The undersigned agree that this Schedule 13D, Amendment No. 2 dated August 18, 2011 relating to the Common Stock, par value $0.08 per share of Primus Guaranty, Ltd. shall be filed on behalf of the undersigned.

Second Curve Capital Partners, L.P.
By: Second Curve Management, LLC
By: Thomas K. Brown, Managing Member

By: /s/ Thomas K. Brown

Second Curve Capital, LLC
By: Thomas K. Brown, Managing Member

By: /s/ Thomas K. Brown

/s/ Thomas K. Brown
Thomas K. Brown

Exhibit B

TRANSACTIONS IN THE SHARES DURING THE PAST 60 DAYS

TRANSACTIONS BY SECOND CURVE PARTNERS

Date of Transaction	Number of Shares Purchased/(Sold)	Price Per Share
*8/15/2011	(493,000)	4.8735
8/17/2011	10,950	5.1775

TRANSACTIONS BY FUNDS AND ACCOUNTS ADVISED BY SECOND CURVE CAPITAL OTHER THAN SECOND CURVE PARTNERS

Date of Transaction	Number of Shares Purchased/(Sold)	Price Per Share
6/17/2011	5,000	4.8482
6/22/2011	10,000	5.0000
6/29/2011	5,000	5.1809
6/29/2011	5,000	5.1809
7/27/2011	10,000	5.8155
*8/15/2011	(200,000)	4.8735
*8/15/2011	(29,000)	4.8735
*8/15/2011	(40,000)	4.8735
*8/15/2011	(130,000)	4.8735
*8/15/2011	(35,000)	4.8735
*8/15/2011	(73,000)	4.8735
8/17/2011	873	5.1775
8/17/2011	3,177	5.1775

*Sale to the Issuer pursuant to a Purchase and Sale Agreement.

SK 21989 0009 1221017
v style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="center">REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
National Western Life Insurance Company:

We have audited the accompanying consolidated balance sheets of National Western Life Insurance Company and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of earnings, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we also have audited the 2008 financial statement schedule I and the 2008, 2007, and 2006 financial statement schedule V. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for deferred acquisition costs in connection with modifications or exchanges of insurance contracts in 2007 and pension and other postretirement obligations in 2006.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Western Life Insurance Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2009 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

KPMG LLP
Dallas, Texas
March 16, 2009

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007
(In thousands)

ASSETS	2008	2007
Investments:		
Securities held to maturity, at amortized cost		
(fair value: $3,727,353 and $3,774,193)	$ 3,831,417	3,778,603
Securities available for sale, at fair value		
(cost: $1,904,053 and $1,904,499)	1,745,266	1,900,714
Mortgage loans, net of allowance for possible losses		
($4,587 and $3,567)	90,733	99,033
Policy loans	79,277	83,772
Derivatives	11,920	25,907
Other long-term investments	14,168	16,562
Total Investments	5,772,781	5,904,591
Cash and short-term investments	67,796	45,206
Deferred policy acquisition costs	701,984	664,805
Deferred sales inducements	120,955	104,029
Accrued investment income	64,872	65,034
Federal income tax receivable	1,820	10,010
Other assets	56,272	41,651
	$ 6,786,480	6,835,326

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007
(In thousands except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2008	2007
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	$ 137,530	138,672
Universal life and annuity contracts	5,424,968	5,441,871
Other policyholder liabilities	131,963	120,400
Deferred Federal income tax liability	26,506	61,720
Other liabilities	79,300	60,978
Total liabilities	5,800,267	5,823,641
COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,425,966 and 3,422,324 shares issued and outstanding in 2008 and 2007	3,426	3,422
Class B - $1 par value; 200,000 shares authorized, issued, and outstanding in 2008 and 2007	200	200
Additional paid-in capital	36,680	36,236
Accumulated other comprehensive loss	(65,358)	(7,065)
Retained earnings	1,011,265	978,892
Total stockholders' equity	986,213	1,011,685
	$ 6,786,480	6,835,326

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2008, 2007, and 2006
(In thousands except per share amounts)

		2008	2007	2006
Premiums and other revenue:				
Life and annuity premiums	$	17,752	19,513	15,805
Universal life and annuity contract revenues		133,424	119,677	106,320
Net investment income		273,362	318,137	379,768
Other income		12,769	13,683	17,304
Realized gains (losses) on investments		(26,228)	3,497	2,662
Total premiums and other revenue		411,079	474,507	521,859
Benefits and expenses:				
Life and other policy benefits		39,759	41,326	35,241
Amortization of deferred policy acquisition costs		127,161	88,413	90,358
Universal life and annuity contract interest		138,960	164,391	213,736
Other operating expenses		55,630	55,130	65,709
Total benefits and expenses		361,510	349,260	405,044
Earnings before Federal income taxes		49,569	125,247	116,815
Federal income taxes		15,927	39,876	40,472
Net earnings	$	33,642	85,371	76,343
Basic Earnings Per Share (Note 11):				
Class A	$	9.54	24.24	21.69
Class B	$	4.77	12.12	10.84
Diluted Earnings Per Share:				
Class A	$	9.48	23.95	21.46
Class B	$	4.77	12.12	10.84

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2008, 2007, and 2006
(In thousands)

	2008	2007	2006
Net earnings	$ 33,642	85,371	76,343
Other comprehensive income (loss), net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	(66,789)	1,035	(4,542)
Reclassification adjustment for net (gains) losses included in net earnings	11,866	(3,103)	(2,736)
Amortization of net unrealized (gains) losses related to transferred securities	(31)	104	25
Net unrealized losses on securities	(54,954)	(1,964)	(7,253)
Foreign currency translation adjustments	(112)	(44)	(178)
Benefit plans:			
Amortization of net prior service cost and net gain	(3,227)	1,235	-
Net loss arising during the period	-	(2,561)	-
Change in pension liability	-	-	(1,166)
Other comprehensive loss	(58,293)	(3,334)	(8,597)
Comprehensive income (loss)	$ (24,651)	82,037	67,746

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2008, 2007, and 2006
(In thousands)

	2008	2007	2006
Common stock:			
Balance at beginning of year	$ 3,622	3,621	3,613
Shares exercised under stock option plan	4	1	8
Balance at end of year	3,626	3,622	3,621
Additional paid-in capital:			
Balance at beginning of year	36,236	36,110	37,923
Shares exercised under stock option plan, net of tax benefits	444	126	503
Adjustment for stock option liability classification	-	-	(2,316)
Balance at end of year	36,680	36,236	36,110
Accumulated other comprehensive income (loss):			
Unrealized gains (losses) on securities:			
Balance at beginning of year	1,184	3,148	10,401
Change in unrealized gains (losses) during period	(54,954)	(1,964)	(7,253)
Balance at end of year	(53,770)	1,184	3,148
Foreign currency translation adjustments:			
Balance at beginning of year	3,078	3,122	3,300
Change in translation adjustments during period	(112)	(44)	(178)
Balance at end of year	2,966	3,078	3,122
Benefit plan liability adjustment:			
Balance at beginning of year	(11,327)	(10,001)	(3,137)
Change in benefit liability during the period	(3,227)	(1,326)	(1,166)
Adjustment to initially apply FASB Statement No. 158, net of tax	-	-	(5,698)
Balance at end of year	(14,554)	(11,327)	(10,001)
Accumulated other comprehensive loss at end of year	(65,358)	(7,065)	(3,731)
Retained earnings:			
Balance at beginning of year	978,892	896,984	821,908
Net earnings	33,642	85,371	76,343
Cumulative effect of change in accounting principle for SOP 05-1, net of tax	-	(2,195)	-
Stockholder dividends	(1,269)	(1,268)	(1,267)
Balance at end of year	1,011,265	978,892	896,984

Total stockholders' equity	$	986,213	1,011,685	932,984

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008, 2007, and 2006
(In thousands)

	2008	2007	2006
Cash flows from operating activities:			
Net earnings	$ 33,642	85,371	76,343
Adjustments to reconcile net earnings			
to net cash provided by operating activities:			
Universal life and annuity contract interest	142,707	175,768	224,447
Surrender charges and other policy revenues	(41,027)	(36,191)	(31,363)
Realized (gains) losses on investments	26,228	(3,497)	(2,662)
Accrual and amortization of investment income	(4,520)	(4,693)	(5,443)
Depreciation and amortization	2,292	1,467	1,516
Decrease (increase) in value of derivatives	17,480	56,204	(27,108)
Decrease (increase) in deferred policy acquisition			
and sales inducement costs	16,418	(38,151)	(24,451)
Decrease (increase) in accrued investment income	162	(642)	(3,110)
Decrease (increase) in other assets	(9,394)	8,378	(10,016)
Increase (decrease) in liabilities for future			
policy benefits	(1,142)	290	(905)
Increase in other policyholder liabilities	11,563	7,951	11,892
Decrease in Federal income tax recoverable	2,572	18,893	2,770
Increase (decrease) increase in other liabilities	(2,108)	(11,247)	11,739
Other	(248)	25	371
Net cash provided by operating activities	194,625	259,926	224,020
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	-	5,934	-
Securities available for sale	1,722	33,616	36,428
Other investments	1,404	5,684	13,672
Proceeds from maturities and redemptions of:			
Securities held to maturity	520,839	136,752	258,051
Securities available for sale	206,510	340,681	104,435
Derivatives	53,805	44,047	37,010
Purchases of:			
Securities held to maturity	(566,764)	(321,609)	(327,126)
Securities available for sale	(218,874)	(366,238)	(312,584)
Derivatives	(58,010)	(53,073)	(42,508)
Other investments	(261)	(289)	(1,582)
Principal payments on mortgage loans	16,609	22,561	11,680
Cost of mortgage loans acquired	(14,239)	(19,578)	(6,326)
Decrease (increase) in policy loans	4,495	3,084	(471)

Other	-	(2,205)	(1,600)
Net cash used in investing activities	(52,764)	(170,633)	(230,921)

(Continued on next page)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Years Ended December 31, 2008, 2007, and 2006
(In thousands)

	2008	2007	2006
Cash flows from financing activities:			
Stockholders dividends	$ (1,269)	(1,268)	(1,267)
Deposits to account balances for universal life and annuity contracts	472,776	510,647	547,469
Return of account balances on universal life and annuity contracts	(591,114)	(603,450)	(521,988)
Issuance of common stock under stock option plan	448	127	511
Net cash provided by (used in) financing activities	(119,159)	(93,944)	24,725
Effect of foreign exchange	(112)	(44)	722
Net increase (decrease) in cash and short-term investments	22,590	(4,695)	18,546
Cash and short-term investments at beginning of year	45,206	49,901	31,355
Cash and short-term investments at end of year	$ 67,796	45,206	49,901
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 41	41	41
Income taxes	11,687	19,298	34,726
Noncash operating activities:			
Deferral of sales inducements	3,747	11,377	10,712
Noncash investing activities:			
Mortgage loans originated to facilitate the sale of real estate	$ -	-	900

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Principles of Consolidation. The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly owned subsidiaries ("Company"), The Westcap Corporation, Regent Care San Marcos Holdings, LLC, NWL Investments, Inc., NWL Services, Inc., and NWL Financial, Inc. All significant intercorporate transactions and accounts have been eliminated in consolidation.

(B) Basis of Presentation. The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates in the accompanying consolidated financial statements include (1) liabilities for future policy benefits, (2) valuation of derivative instruments, (3) recoverability and amortization of deferred policy acquisition costs, (4) valuation allowances for deferred tax assets, (5) other-than-temporary impairment losses on debt securities, and (6) valuation allowances for mortgage loans and real estate.

The Company also files financial statements with insurance regulatory authorities which are prepared on the basis of statutory accounting practices prescribed or permitted by the Colorado Division of Insurance which are significantly different from consolidated financial statements prepared in accordance with GAAP. These differences are described in detail in the statutory information section of this note.

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

(C) Investments. Investments in debt securities the Company purchases with the intent to hold to maturity are classified as securities held to maturity. The Company has the ability to hold the securities, as it would be unlikely that forced sales of securities would be required prior to maturity to cover payments of liabilities. As a result, securities held to maturity are carried at amortized cost less declines in fair value that are deemed other-than-temporary.

Investments in debt and equity securities that are not classified as securities held to maturity are reported as securities available for sale. Securities available for sale are reported in the accompanying consolidated financial statements at fair value. Any valuation changes resulting from changes in the fair value of the securities are reflected as a component of stockholders' equity in accumulated other comprehensive income or loss. These unrealized gains or losses in stockholders' equity are reported net of taxes and adjustments to deferred policy acquisition costs.

Transfers of securities between categories are recorded at fair value at the date of transfer.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For mortgage-backed and asset-backed securities, the effective interest method is used based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

Realized gains and losses for securities available for sale and securities held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold. A decline in the fair

value below cost that is deemed other-than-temporary is charged to earnings, resulting in the establishment of a new cost basis for the security. The new discount or reduced premium amount is amortized over the remaining life of the impaired debt security prospectively based on the amount and timing of future estimated cash flows.

Mortgage loans and other long-term investments are stated at cost, less unamortized discounts, deferred fees, and allowances for possible losses. Policy loans are stated at their aggregate unpaid balances. Real estate is stated at the lower of cost or fair value less estimated costs to sell.

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Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans include (1) nonaccrual loans, (2) loans which are 90 days or more past due, unless they are well secured and are in the process of collection, and (3) other loans which management believes are impaired. Impaired loans are measured based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company's impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

Quarterly the Company reviews its investment portfolio for market value changes to monitor issuer credit deterioration, changes in market interest rates and changes in economic conditions. If this review indicates a decline in fair value that is other than temporary, the Company’s carrying amount in the investment is reduced to its estimated fair value and a specific write down is taken through earnings. Such reductions in carrying amount are recognized as realized losses and charges to income. The Company would recognize impairment of securities due to changing of interest rates or market dislocations only if the Company no longer had the ability to hold the securities until recovery or maturity.

The Company considers a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline in fair value, 4) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer’s industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

While the Company closely manages its investment portfolio, future changes in issuer facts and circumstances can result in impairments beyond those currently identified.

(D) Cash and Short-Term Investments. For purposes of the consolidated statements of cash flows, the Company considers all short-term investments with a maturity at the date of purchase of three months or less to be cash equivalents.

Management determined during 2008 that there was a misclassification of $2 million in the statement of cash flows between net cash provided by operating activities and net cash used in investing activities. This misclassification error has been corrected in the accompanying Consolidated Statement of Cash Flows and was determined by management to be immaterial.

(E) Derivatives. Fixed-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an underlying equity index. The equity return component of such policy contracts is identified separately and accounted for in future policy benefits as embedded derivatives on the consolidated balance sheet. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates.

The Company purchases over-the-counter indexed options, which are derivative financial instruments, to hedge the equity return component of its indexed annuity and life products. The indexed options act as hedges to match closely the returns on the underlying Index. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying Index. As a result, changes to policyholders' liabilities are substantially offset by changes in the value of the options. Cash is exchanged upon purchase of the indexed options and no principal or interest payments are made by either party during the option periods. Upon maturity or expiration of the options, cash is paid to the Company based on the underlying Index performance and terms of the contract.

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The Company does not elect hedging accounting relative to derivative instruments. The derivatives are reported at fair value in the accompanying consolidated financial statements. The changes in the values of the indexed options and the changes in the policyholder liabilities are both reflected in the statement of earnings. Any gains or losses from the sale or expiration of the options, as well as period-to-period changes in values, are reflected as net investment income in the statement of earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the consolidated statement of earnings.

Although there is credit risk in the event of nonperformance by counterparties to the indexed options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure. At December 31, 2008 and 2007, the fair values of indexed options owned by the Company totaled $11.9 million and $25.9 million, respectively.

(F) Insurance Revenues and Expenses. Premiums on traditional life insurance products are recognized as revenues as they become due from policyholders. Benefits and expenses are matched with premiums in arriving at profits by providing for policy benefits over the lives of the policies and by amortizing acquisition costs over the premium-paying periods of the policies. For universal life and annuity contracts, revenues consist of policy charges for the cost of insurance, policy administration, and surrender charges assessed during the period. Expenses for these policies include interest credited to policy account balances, benefit claims incurred in excess of policy account balances and amortization of deferred policy acquisition costs and sales inducements.

Under GAAP, commissions, sales inducements, and certain expenses related to policy issuance and underwriting, all of which generally vary with and are related to the production of new business, are deferred. For traditional products, these costs are amortized over the premium-paying period of the related policies in proportion to the ratio of the premium earned to the total premium revenue anticipated, using the same assumptions as to interest, mortality, and withdrawals as were used in calculating the liability for future policy benefits. For universal life and annuity contracts, these costs are amortized in relation to the present value of expected gross profits on these policies. The Company evaluates the recoverability of deferred policy acquisition and sales inducement costs on a quarterly basis. In this evaluation, the Company considers estimated future gross profits or future premiums, as applicable for the type of contract. The Company also considers expected mortality, interest earned and credited rates, persistency, and expenses.

A summary of information relative to deferred policy acquisition costs is provided in the table below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Deferred policy acquisition costs, beginning of year	$ 664,805	643,964	620,129
Policy acquisition costs deferred:			
Agents' commissions	100,254	109,323	97,662
Other	6,742	7,180	6,436
Total costs deferred	106,996	116,503	104,098

Amortization of deferred policy acquisition costs	(127,161)	(88,413)	(90,358)
Adjustments for unrealized losses (gains)			
on investment securities	57,344	(3,928)	10,095
Adoption of SOP 05-1	-	(3,321)	-
Deferred policy acquisition costs, end of year	$ 701,984	664,805	643,964

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A summary of information relative to deferred sales inducements is provided in the table below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Deferred sales inducements, beginning of year	$ 104,029	93,139	80,450
Sales inducement costs deferred	19,462	20,837	19,813
Amortization of sales inducements	(15,715)	(9,460)	(9,101)
Adjustments for unrealized losses (gains) on investment securities	13,179	(487)	1,977
Deferred sales inducements, end of year	$ 120,955	104,029	93,139

Amortization of deferred policy acquisition costs increased to $127.1 million for the year ended December 31, 2008 compared to $88.4 million and $90.4 million reported in 2007 and 2006. An unlocking adjustment was recorded in the current year which resulted in an increase of amortization by $6.3 million. This unlocking adjustment was based upon changes to future annuitizations and full surrenders reflecting current experience studies. An unlocking adjustment was recorded in 2007 which resulted in a decrease in amortization of $10.4 million. This unlocking adjustment was based upon changes to (1) future mortality assumptions reflecting current experience studies and (2) assumption changes to future cost of insurance rates. There were no unlocking adjustments recognized during 2006. True-up adjustments were also recorded in 2008 and 2007 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in a $16.2 million and $1.0 million increase in amortization, respectively. Amortization for 2006 includes a true-up adjustment relative to partial surrenders, mortality assumptions, annuitizations, credited rates and earned rates which increased amortization in that year by approximately $5.4 million.

During the fourth quarter of 2008, during a detailed review of Deferred Acquisition Cost assets, the Company identified that it had over capitalized $2.4 million of deferred acquisition costs during the first three quarters of 2008, and an additional $3.5 million for periods prior to 2008. This immaterial error was corrected during the fourth quarter and resulted in a decrease in the deferred acquisition cost asset and an increase in amortization.

Under GAAP, the liability for future policy benefits on traditional products has been calculated under SFAS No. 60 using assumptions as to future mortality (based on the 1965-1970 and 1975-1980 Select and Ultimate mortality tables), interest ranging from 4% to 8%, and withdrawals based on Company experience. For universal life and annuity contracts, the liability for future policy benefits represents the account balance. Fixed-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an equity index. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, the equity return component of such policy contracts must be identified separately and accounted for as embedded derivatives. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under provisions of SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, that requires debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates. The

embedded derivatives are recorded at fair values.

(G) Deferred Federal Income Taxes. Federal income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance for deferred tax assets is provided if all or some portion of the deferred tax asset may not be realized. An increase or decrease in a valuation allowance that results from a change in circumstances that affects the realizability of the related deferred tax asset is included in income in the period the change occurs.

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(H) Depreciation of Property, Equipment, and Leasehold Improvements. Depreciation is based on the estimated useful lives of the assets and is calculated on the straight-line and accelerated methods. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

(I) Statutory Information. Domiciled in Colorado, the Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance. The Colorado Division of Insurance has adopted the provisions of the National Association of Insurance Commissioners' ("NAIC") Statutory Accounting Practices as the basis for its statutory practices.

The following are major differences between GAAP and accounting practices prescribed or permitted by the Colorado Division of Insurance.

1. The Company accounts for universal life and annuity contracts based on the provisions of Statement of Financial Accounting Standards ("SFAS") No. 97. The basic effect of the statement with respect to certain long-duration contracts is that deposits for universal life and annuity contracts are not reflected as revenues, and surrenders and certain other benefit payments are not reflected as expenses. However, only those contracts with no insurance risk qualify for such treatment under statutory accounting practices. For all other contracts, statutory accounting practices do reflect such items as revenues and expenses.

A summary of direct premiums and deposits collected is provided below.

		Years Ended December 31,		
		2008	2007	2006
			(In thousands)	
Annuity deposits	$	410,133	437,765	485,994
Universal life insurance deposits		170,933	168,279	146,742
Traditional life and other premiums		20,698	22,310	18,046
Totals	$	601,764	628,354	650,782

2. Statutory accounting practices require commissions and related costs to be expensed as incurred, where as for GAAP, these items are deferred and amortized.

3. For statutory accounting purposes, liabilities for future policy benefits for life insurance policies are calculated by the net level premium method or the commissioners reserve valuation method. Future policy benefit liabilities for annuities are calculated based on the continuous commissioners annuity reserve valuation method and provisions of Actuarial Guidelines 33 and 35.

4. Deferred Federal income taxes are provided for temporary differences which are recognized in the consolidated financial statements in a different period than for Federal income tax purposes. Deferred taxes are also recognized in statutory accounting practices; however, there are limitations as to the amount of deferred tax assets that may be reported as admitted assets. The change in the deferred taxes is recorded in surplus, rather than as a component of income tax expense.

5. For statutory accounting purposes, debt securities are recorded at amortized cost, except for securities in or near default, which are reported at fair value. Under GAAP, debt securities are carried at amortized cost or fair value based on their classification as either held to maturity or available for sale.

6. Investments in subsidiaries are recorded at admitted asset value for statutory purposes, whereas the financial statements of the subsidiaries have been consolidated with those of the Company under GAAP.

7. Compensation costs related to the Company's stock option plan are not recognized under statutory accounting.

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8. Pension liabilities and net periodic benefit costs are recognized for statutory accounting however in accordance with GAAP a liability or asset is recognized for the under or over funded status of the plans and does include a non-vested component. Statutory accounting only includes vested benefits.

9. The asset valuation reserve and interest maintenance reserve, which are investment valuation reserves prescribed by statutory accounting practices, have been eliminated, as they are not required under GAAP.

10. The recorded value of the life interest in the Libbie Shearn Moody Trust ("Trust") is reported at its initial valuation, net of accumulated amortization, under GAAP. The initial valuation was based on the assumption that the Trust would provide certain income to the Company at an assumed interest rate and is being amortized over 53 years, the life expectancy of Mr. Robert L. Moody at the date he contributed the life interest to the Company. For statutory accounting purposes, the life interest has been valued at $26.4 million, which was computed as the present value of the estimated future income to be received from the Trust. However, this amount was amortized to a valuation of $12.8 million over a seven-year period ended December 31, 1999, in accordance with Colorado Division of Insurance permitted accounting requirements. Prescribed statutory accounting practices provide no accounting guidance for such asset. The statutory admitted value of this life interest at December 31, 2008, is $12.8 million in comparison to a carrying value of $1.3 million in the accompanying consolidated financial statements.

11. The table below provides the Company's net gain from operations, net income (loss), unassigned surplus (retained earnings) and capital and surplus (stockholder's equity), on the statutory basis used to report to regulatory authorities for the years ended December 31,

	2008	2007	2006
		(In thousands)	
Net gain from operations	$ 48,853	37,369	110,101
Net income (loss)	9,643	32,290	72,585
Unassigned surplus	670,963	672,793	632,520
Capital and surplus	708,047	710,935	673,262

(J) Stock Compensation. Effective March 10, 2006, the Company began accounting for its share-based compensation under the liability classification and measuring the compensation cost using the fair value method at each reporting date. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. For stock options, fair value is determined using an option pricing model that takes into account various information and assumptions regarding the Company's stock and options. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock.

The Company adopted Statement No. 123(R), Share-Based Payment ("SFAS 123(R)"), as of January 1, 2006. However, because the Company began recognizing stock-based employee compensation cost using the fair value based method of accounting in 2003, the adoption did not have an impact on the consolidated financial statements of the Company.

(K) New Accounting Pronouncements. The FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ("FIN 48"), dated June, 2006. The interpretation requires public companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The amount recognized would be the amount that represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability would be recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the financial statements, along with any interest and penalty (if applicable) on the excess. FIN 48 requires a tabular reconciliation of the change in the aggregate unrecognized tax benefits claimed, or expected to be claimed, in tax returns and disclosure relating to accrued interest and penalties for unrecognized tax benefits. Discussion is required for those uncertain tax positions where it is reasonably possible that the estimate of the tax benefit will change significantly in the next 12 months. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have an impact on the Company's consolidated financial statements.

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On February 16, 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133, Accounting for Derivatives and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Hybrid financial instruments are single financial instruments that contain an embedded derivative. Under SFAS No. 155, entities can elect to record certain hybrid financial instruments at fair value as individual financial instruments. Prior to this amendment, certain hybrid financial instruments were required to be separated into two instruments – a derivative and host – and generally only the derivative was recorded at fair value. SFAS No. 155 also requires that beneficial interests in securitized assets be evaluated for either freestanding or embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired or issued after January 1, 2007. SFAS No. 155 did not have an effect on the Company's consolidated financial statements on the date of adoption.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. The Company adopted this guidance effective January 1, 2008 and the adoption did not have an impact on the Company’s consolidated financial statements. See related disclosures in Note 14 to Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). This statement requires an employer on a prospective basis to recognize the overfunded or underfunded status of its defined benefit pension and postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company adopted SFAS 158 effective December 31, 2006. The adoption reduced stockholders equity by $5,698,000 as of that date.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose upon adoption or at specified election dates, to measure at fair value many financial instruments and certain other items at fair value. The Company adopted SFAS 159 effective January 1, 2008, with no impact to the Company’s consolidated financial statements as no eligible financial assets or liabilities were elected to be measured at fair value upon initial adoption. Management will continue to evaluate eligible financial assets and liabilities on their election dates, and will disclose any future elections in accordance with provisions outlined in the Statement.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 establishes accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. Specifically, SFAS 160 states where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The provisions of SFAS 160 are effective beginning January 1, 2009. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In December 2007, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 141(R), Business Combinations. SFAS 141(R) establishes how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning

on or after December 15, 2008, early adoption is prohibited. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years and interim periods beginning after November 15, 2008.

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In October 2008, the FASB issued FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This FSP clarifies the application of SFAS 157 in a market that is not active and illustrates key considerations including the use of an entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates, appropriate risk adjustments for nonperformance and liquidity risks, and the reliance that an entity should place on quotes that do not reflect the result of market transactions. This FSP was preceded by a press release that was jointly issued by the Office of the Chief Accountant of the SEC and the FASB staff on September 30, 2008 which provided immediate clarification on fair value accounting based on the measurement guidance of SFAS 157. The FSP was effective upon issuance and did not have a material impact on the Company's consolidated financial statements. See Note 14 for disclosures regarding the Company's fair value measurements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. This statement requires enhanced disclosures regarding an entity's derivative and hedging activity to enable investors to better understand the effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 is not expected to have a material impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The provisions of FSP FAS 142-3 are to be applied prospectively to intangible assets acquired after January 1, 2009 although the disclosure provisions are required for all intangible assets as of or subsequent to January 1, 2009. The adoption of FSP FAS 142-3 is not expected to impact the Company's consolidated financial condition and results of operations.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP amends SFAS 133 to require disclosures by entities that assume credit risk through the sale of credit derivatives including credit derivatives embedded in a hybrid instrument to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives. This FSP also amends FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to require additional disclosure about the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 are effective for financial statements issued for fiscal years and interim periods ending after November 15, 2008. The Company does not expect the adoption of FSP FAS 133-1 and FIN 45-4 to have an effect on the Company's consolidated financial condition and results of operations.

In January 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. The Staff Position amends EITF 99-20's impairment model more consistent with Statement 115's removing its exclusive reliance on "market participant" estimate of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the "market participant" view to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows allows management to apply reasonable judgment in assessing whether an other than temporary impairment has occurred. The new FSP was effective for the Company as of December 31, 2008 and did not have a significant impact on the consolidated financial statements of the Company.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

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Change in Accounting

In September 2005, the AICPA issued Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1") which is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The Company has an impact related to the adoption of SOP 05-1 for contracts which have annuitized and relative to reinstatements of contracts in that the unamortized deferred acquisition costs and deferred sales inducement assets must be written-off at the time of annuitization and may not be continued related to reinstatements. SOP 05-1 results in changes in assumptions relative to estimated gross profits which affects unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this SOP on beginning retained earnings as of January 1, 2007 was a decrease of $2.2 million, net of tax, as detailed below.

	Amounts (In thousands)
Write-off of deferred acquisition cost	$ 3,321
Adjustment to deferred annuity revenue	56
	3,377
Federal income tax	(1,182)
Cumulative effect of change in accounting for internal replacements and investment contracts	$ 2,195

(2) DEPOSITS WITH REGULATORY AUTHORITIES

The following assets were on deposit with state and other regulatory authorities as required by law at the end of each year.

	December 31, 2008	2007
	(In thousands)	
Debt securities held to maturity	$ 13,633	13,640
Debt securities available for sale	557	692
Short-term investments	500	502
Totals	$ 14,690	14,834

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(3) INVESTMENTS

(A) Investment Income

The major components of net investment income are as follows:

	Years Ended December 31,		
	2008	2007	2006
		(In thousands)	
Gross investment income:			
Debt securities	$ 320,275	309,708	306,129
Mortgage loans	7,223	8,513	8,480
Policy loans	6,096	6,302	6,354
Derivative gains (losses)	(65,676)	(16,662)	43,279
Short-term investments	1,915	7,059	3,118
Other investment income	5,934	6,087	15,289
Total investment income	275,767	321,007	382,649
Investment expenses	2,405	2,870	2,881
Net investment income	$ 273,362	318,137	379,768

As of December 31, 2008, 2007, and 2006 mortgage loans totaling $4.6 million, $3.3 million, and $4.8 million, respectively were on non-accrual status. Interest income not recognized for past due loans totaled approximately $0.4 million in 2008, 2007 and 2006. The Company had real estate investments that were non-income producing for the preceding twelve months totaling $1.5 million, $1.8 million, and $1.7 million at December 31, 2008, 2007, and 2006, respectively.

The Company had investments in debt securities with carrying values totaling $0.4 million and $0.6 million as of December 31, 2008 and 2007, respectively that have not produced income for the preceding 12 months. Reductions in interest income associated with nonperforming investments in debt securities totaled $0.3 million, $0.3 million, and $0.1 million in 2008, 2007, and 2006, respectively.

(B) Mortgage Loans and Real Estate

Concentrations of credit risk arising from mortgage loans exist in relation to certain groups of borrowers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company does not have a significant exposure to any individual customer or counterparty.

Mortgage loans with carrying values totaling $4.6 million, $3.3 million, and $4.8 million were considered impaired as of December 31, 2008, 2007 and 2006, respectively. For the years ended December 31, 2008, 2007, and 2006, average investments in impaired mortgage loans were $2.7 million, $3.4 million, and $0.3 million, respectively. Interest income recognized on impaired loans for the years ended December 31, 2008, 2007 and 2006, was $596,000, $469,000 and $76,000, respectively. Impaired loans are typically placed on nonaccrual status, and no interest income is recognized. However, if cash is received on the impaired loan, it is applied to principal and interest

on past due payments, beginning with the most delinquent payment.

At December 31, 2008 and 2007, the Company owned investment real estate totaling $10.8 million and $12.0 million, respectively, which is reflected in other long-term investments in the accompanying consolidated financial statements. The Company records real estate at the lower of cost or fair value less estimated costs to sell. Real estate values are monitored and evaluated at least annually by the use of independent appraisals or internal evaluations. Changes in market values affecting carrying values are recorded as a valuation allowance which is reflected in realized gains or losses on investments. The Company recorded a net gain (loss) on real estate as a result of releasing allowances related to properties sold totaling $(0.1) million, $0.1 million, and $0.1 million for the years ended December 31, 2008, 2007, and 2006, respectively.

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(C) Debt and Equity Securities

The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at December 31, 2008.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ 119,674	3,975	-	123,649
U.S. Treasury	1,923	592	-	2,515
States and political subdivisions	23,123	3	801	22,325
Foreign governments	9,955	438	-	10,393
Public utilities	527,277	5,073	31,530	500,820
Corporate	1,334,157	13,580	118,204	1,229,533
Mortgage-backed	1,747,104	44,213	8,210	1,783,107
Asset-backed	68,204	130	13,323	55,011
Totals	$ 3,831,417	68,004	172,068	3,727,353

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ -	-	-	-
U.S. Treasury	-	-	-	-
States and political subdivisions	77,160	332	13,653	63,839
Foreign governments	10,418	907	-	11,325
Public utilities	287,927	300	25,085	263,142

Corporate	1,239,712	6,503	126,968	1,119,247
Mortgage-backed	255,910	5,739	7,693	253,956
Asset-backed	25,819	-	5,745	20,074
Equity securities	7,107	7,481	905	13,683
Totals	$ 1,904,053	21,262	180,049	1,745,266

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The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at December 31, 2007.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ 424,306	2,971	495	426,782
U.S. Treasury	1,930	394	-	2,324
States and political subdivisions	13,287	24	40	13,271
Foreign governments	19,944	390	-	20,334
Public utilities	397,639	9,272	4,838	402,073
Corporate	1,194,260	16,984	19,039	1,192,205
Mortgage-backed	1,646,432	9,340	17,463	1,638,309
Asset-backed	80,805	692	2,602	78,895
Totals	$ 3,778,603	40,067	44,477	3,774,193

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ 5,000	67	-	5,067
U.S. Treasury	-	-	-	-
States and political subdivisions	48,280	1,134	907	48,507
Foreign governments	10,473	466	-	10,939
Public utilities	293,308	2,568	4,068	291,808
Corporate	1,242,402	18,730	25,639	1,235,493

Mortgage-backed	266,534	1,739	5,300	262,973
Asset-backed	26,227	412	425	26,214
Equity securities	12,275	8,851	1,413	19,713
Totals	$ 1,904,499	33,967	37,752	1,900,714

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Due to the Company's investment policy of investing in high quality securities with the primary intention of holding these securities until the stated maturity, the portfolio has exposure to interest rate risk. Interest rate risk is the risk that funds are invested today at a market interest rate and in the future interest rates rise causing the current market price on that investment to be lower. This risk is not a significant factor relative to the Company's buy and hold portfolio, since the original intention was to receive the stated interest rate and principal at maturity to match liability requirements of policyholders. Also, the Company takes steps to manage these risks. For example, the Company purchases the type of mortgage-backed securities that have more predictable cash flow patterns.

In addition, the Company is exposed to credit risk which is continually monitored relating to security holdings. Credit risk is the risk that an issuer of a security will not be able to fulfill their obligations relative to a security payment schedule. The Company has reviewed relative information for all issuers in an unrealized loss position at December 31, 2008 including market pricing history, credit ratings, analyst reports as well as data provided by issuers themselves to conclude on each specific issuer and make the determination relating to other-than-temporary impairment. For the securities that have not been impaired at December 31, 2008, the Company has the ability and intent to hold these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company held in its investment portfolio below investment grade debt securities totaling $72.2 million and $100.2 million at December 31, 2008 and 2007, respectively. These amounts represent 1.2% and 1.7% of total invested assets for December 31, 2008 and 2007, respectively. Below investment grade holdings are the result of downgrades subsequent to purchase, as the Company only invests in high quality securities with ratings quoted as investment grade. Below investment grade securities generally have greater default risk than higher rated corporate debt. The issuers of these securities are usually more sensitive to adverse industry or economic conditions than are investment grade issuers. For the years ended December 31, 2008, 2007, and 2006, the Company recorded realized losses totaling $21.8 million, $0.1 million, and $0.1 million, respectively, for other-than-temporary impairment writedowns on investments in debt securities.

The following table shows the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2008.

	Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	9,687	(631)	2,635	(170)	12,322	(801)
Foreign governments	-	-	-	-	-	-

Public utilities		312,575	(21,485)	84,474	(10,045)	397,049	(31,530)
Corporate bonds		518,841	(52,581)	278,975	(65,623)	797,816	(118,204)
Mortgage-backed		4,624	(299)	54,582	(7,911)	59,206	(8,210)
Asset-backed		23,408	(1,963)	26,681	(11,360)	50,089	(13,323)
Total temporarily impaired securities	$	869,135	(76,959)	447,347	(95,109)	1,316,482	(172,068)

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	Available For Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	13,486	(4,978)	45,848	(8,675)	59,334	(13,653)
Foreign governments	-	-	-	-	-	-
Public utilities	105,498	(15,799)	148,901	(9,286)	254,399	(25,085)
Corporate bonds	367,933	(70,754)	560,028	(56,214)	927,961	(126,968)
Mortgage-backed	48,540	(7,693)	-	-	48,540	(7,693)
Asset-backed	8,329	(2,133)	11,745	(3,612)	20,074	(5,745)
	543,786	(101,357)	766,522	(77,787)	1,310,308	(179,144)
Equity securities	1,205	(328)	2,057	(577)	3,262	(905)
Total temporarily impaired securities	$ 544,991	(101,685)	768,579	(78,364)	1,313,570	(180,049)

The volatility and lack of liquidity in the bond market in the fourth quarter of 2008 caused bond prices to decline significantly. This problem was particularly apparent in the corporate bond market due to deepening recessionary concerns. Where the decline in market value is attributable to changes in market interest rates and not credit quality, we do not consider these investments to be other than temporarily impaired because we have the intent and ability to hold these investments until a recovery of amortized costs, which may be maturity. We do not consider securities to be other than temporarily impaired where the market decline is attributable to factors such as market volatility, liquidity, spread widening and credit quality where we anticipate a recovery of all amounts due under the contractual terms of the security and have the intent and ability to hold until recovery or maturity. Based on the Company's review in concert with the Company's ability and intent to hold those securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

Debt securities. The gross unrealized losses for debt securities are made up of 428 individual issues, or 56% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages

88%. Of the 428 securities, 170, or approximately 40%, fall in the 12 months or greater aging category; of the 428 debt securities, 411 were rated investment grade at December 31, 2008. Additional information on debt securities by investment category is summarized below.

U.S. treasury and U.S. government corporations and agencies. No securities had a gross unrealized loss.

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 53 securities. Of these securities, all are rated A or above except one which is rated BB+. Based on these facts and the Company's intent to hold to maturity, no other-than-temporary loss was recognized as of December 31, 2008.

Foreign government. No securities had a gross unrealized loss.

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Public utilities. Of the 100 securities, all are rated BBB or above except two, one is priced at 93% of par and the other at 71% of par. At this time, the Company does not consider any of these unrealized losses as other-than-temporary.

Corporate bonds. Corporate securities with unrealized losses are reviewed based on monitoring procedures described previously; including review of the amount of the unrealized loss, the length of time that the issue has been in an unrealized loss position, credit ratings, analyst reports, and recent issuer financial information. A total of 235 securities had unrealized losses; with 10 issues rated below investment grade. More extensive analysis was performed on these 10 issues based on the work performed, none of the unrealized losses are considered other-than-temporarily impaired at December 31, 2008.

Mortgage-backed securities. These securities are all rated AAA. The Company generally purchases these investments at a discount relative to their face amount and it is expected that the securities will not be settled at a price less than the stated par. Because the decline in market value is attributable to the current illiquidity in the market and not credit quality, and because the Company has the ability and intent to hold these securities until a recovery of fair value, which may be maturity, and based on the lack of adverse changes in expected cash flows, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Asset-backed securities. Of the 26 securities, 16 are rated AAA and 2 are rated AA. The Company performs a quarterly cash flow analysis on asset-backed securities that are rated below AA. Based on the lack of adverse changes in expected cash flows, the 8 issues rated below AA are not considered impaired.

Equity securities. The gross unrealized losses for equity securities are made up of 61 individual issues. These holdings are reviewed for impairment quarterly. As of December 31, 2008, 31 equity securities were impaired. Total other-than-temporary impairments taken in 2008 on equities were $5.4 million.

The following table shows the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2007.

		Held to Maturity					
		Less than 12 Months		12 Months or Greater		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(In thousands)					
Debt securities:							
U.S. Government agencies	$	-	-	44,207	495	44,207	495
U.S. Treasury		-	-	-	-	-	-
State and political subdivisions		-	-	2,758	40	2,758	40
Foreign governments		-	-	-	-	-	-
Public utilities		31,604	392	143,527	4,446	175,131	4,838

Corporate bonds		96,359	1,464	504,077	17,575	600,436	19,039
Mortgage-backed		24,717	82	937,373	17,381	962,090	17,463
Asset-backed		17,795	869	25,989	1,733	43,784	2,602
Total temporarily impaired securities	$	170,475	2,807	1,657,931	41,670	1,828,406	44,477

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	Available For Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	-	-	48,507	907	48,507	907
Foreign governments	-	-	-	-	-	-
Public utilities	33,157	95	135,260	3,973	168,417	4,068
Corporate bonds	87,564	1,667	545,726	23,972	633,290	25,639
Mortgage-backed	14,464	83	112,119	5,217	126,583	5,300
Asset-backed	985	7	8,549	418	9,534	425
	136,170	1,852	850,161	34,487	986,331	36,339
Equity securities	-	-	12,247	1,413	12,247	1,413
Total temporarily impaired securities	$ 136,170	1,852	862,408	35,900	998,578	37,752

The amortized cost and fair value of investments in debt securities at December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in 1 year or less	$ 66,962	63,604	139,897	140,150
Due after 1 year through 5 years	421,879	394,775	490,974	465,607

Due after 5 years through 10 years	1,009,704	901,534	1,299,179	1,200,639
Due after 10 years	116,672	97,640	86,059	82,839
	1,615,217	1,457,553	2,016,109	1,889,235
Mortgage and asset-backed securities	281,729	274,030	1,815,308	1,838,118
Total	$ 1,896,946	1,731,583	3,831,417	3,727,353

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The Company uses the specific identification method in computing realized gains and losses. Proceeds from sales of securities available for sale during 2008, 2007, and 2006 totaled $1.7 million, $33.6 million, and $36.4 million, respectively.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Available for sale debt securities:			
Realized gains on disposal	$ 1,811	4,830	4,556
Realized losses on disposal	-	(359)	(333)
Held to maturity debt securities:			
Realized gains on disposal	154	19	26
Realized losses on disposal	-	-	-
Impairments on debt securities	(21,803)	(67)	(99)
Equity securities realized gains (losses)	102	250	(14)
Equity securities impairments	(5,412)	-	-
Real estate	-	72	-
Mortgage loans	(1,020)	(1,467)	(2,100)
Other	(60)	219	626
Totals	$ (26,228)	3,497	2,662

For the year, the Company recorded other-than-temporary impairment writedowns on debt securities consisting of Washington Mutual ($9.3 million), Clear Channel Communications ($8.7 million), GMAC ($2.3 million), and Greentree ($1.5 million). Due to the events leading to the writedowns also providing evidence of a significant deterioration in the issuers' creditworthiness, the Washington Mutual, Greentree Financial and two GMAC securities were transferred from held to maturity to available for sale.

The $5.4 million of equity impairments in 2008 include Fannie Mae and Freddie Mac preferred stock holdings ($4.6 million) and mark-to-market writedowns on various other equity holdings.

Due to significant credit deterioration, one bond from the held to maturity portfolio was sold during 2007. The amortized cost of this bond sold totaled $5.2 million, which resulted in realized gains of $0.2 million for 2007.

Except for U.S. government agency mortgage-backed securities, the Company had no other investments in any entity in excess of 10% of stockholders' equity at December 31, 2008 or 2007.

(D) Net Unrealized Gains (Losses) on Available for Sale Securities

Net unrealized gains (losses) on investment securities included in stockholders' equity at December 31, 2008 and 2007, are as follows:

	December 31,	
	2008	2007
	(In thousands)	

Gross unrealized gains	$	21,262	33,967
Gross unrealized losses		(180,049)	(37,752)
Adjustments for:			
Deferred policy acquisition costs and sales inducements		76,075	5,568
Deferred Federal income tax expense (recoverable)		28,949	(624)
		(53,763)	1,159
Net unrealized gains (losses) related to securities transferred to held to maturity		(7)	25
Net unrealized gains (losses) on investment securities	$	(53,770)	1,184

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(4) REINSURANCE

Effective January 1, 2004, the Company began reinsuring any risk on any one life in excess of $250,000, subject to a minimum session of $50,000. The Company's general policy prior to December 31, 2003 was to reinsure that portion of any risk in excess of $200,000 on the life of any one individual. The Company is party to several reinsurance agreements. Total life insurance in force was $18.8 billion and $17.6 billion at December 31, 2008 and 2007, respectively. Of these amounts, life insurance in force totaling $5.9 billion and $5.0 billion was ceded to reinsurance companies, primarily on a yearly renewable term basis, at December 31, 2008 and 2007, respectively. In accordance with the reinsurance contracts, reinsurance receivables including amounts related to claims incurred but not reported and liabilities for future policy benefits totaled $8.2 million and $9.6 million at December 31, 2008 and 2007, respectively. Premiums and contract revenues were reduced by $20.4 million, $16.3 million, and $13.5 million for reinsurance premiums incurred during 2008, 2007, and 2006, respectively. Benefit expenses were reduced by $7.7 million, $8.5 million, and $17.7 million, for reinsurance recoveries during 2008, 2007, and 2006, respectively. A contingent liability exists with respect to reinsurance, as the Company remains liable if the reinsurance companies are unable to meet their obligations under the existing agreements. The Company does not assume reinsurance.

(5) FEDERAL INCOME TAXES

Total Federal income taxes for 2008, 2007, and 2006 were allocated as follows:

		Years Ended December 31, (In thousands)		
		2008	2007	2006
Taxes (benefits) on earnings from continuing operations:				
Current	$	19,871	7,622	38,711
Deferred		(3,944)	32,254	1,761
Taxes on earnings		15,927	39,876	40,472
Taxes (benefits) on components of stockholders' equity:				
Net unrealized gains and losses on securities available for sale		(29,590)	(1,056)	(3,905)
Foreign currency translation adjustments		(60)	(24)	(96)
Change in benefit liability		(1,738)	(714)	(5,385)
Total Federal income taxes (benefit)	$	(15,461)	38,082	31,086

The provisions for Federal income taxes attributable to earnings from continuing operations vary from amounts computed by applying the statutory income tax rate to earnings before Federal income taxes. The reasons for the differences and the corresponding tax effects are as follows:

Years Ended December 31, (In thousands)		
2008	2007	2006

Income tax expense at statutory rate	$ 17,349	43,837	40,885
Dividend received deduction	(1,155)	(1,192)	(1,266)
Tax exempt interest	(1,374)	(813)	(737)
Deferred tax liability correction	-	(2,389)	-
Other	1,107	433	1,590
Taxes on earnings from continuing operations	$ 15,927	39,876	40,472

There were no deferred taxes attributable to enacted tax rate changes for the years ended December 31, 2008, 2007, and 2006.

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During the second quarter of 2007, upon the completion of a detailed review of the deferred tax items, the Company identified a $2.3 million error in the net deferred tax liability. The error, which occurred during various periods prior to 2005, was corrected in the second quarter of 2007 and resulted in a decrease in the net deferred tax liability and deferred tax expense. The adjustment was not material to 2007 or any prior financial statements.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are presented below.

	December 31,	
	2008	2007
	(In thousands)	
Deferred tax assets:		
Future policy benefits, excess of financial accounting liabilities over tax liabilities	$ 160,390	172,619
Investment securities writedowns for financial accounting purposes	12,357	3,872
Net unrealized losses on securities available for sale	28,951	-
Pension liabilities	7,862	6,099
Real estate, principally due to writedowns for financial accounting purposes	49	-
Accrued operating expenses recorded for financial accounting purposes not currently tax deductible	4,430	5,396
Mortgage loans, principally due to valuation allowances for financial accounting purposes	1,605	1,248
Accrued and unearned investment income recognized for tax purposes and deferred for financial accounting purposes	163	193
Other	401	1,223
Total gross deferred tax assets	216,208	190,650
Deferred tax liabilities:		
Deferred policy acquisition and sales inducement costs, principally expensed for tax purposes	(232,400)	(240,294)
Net unrealized gains on securities available for sale	-	(639)
Debt securities, principally due to deferred market discount for tax	(5,601)	(4,903)
Foreign currency translation adjustments	(1,768)	(3,216)
Fixed assets, due to different bases	(2,945)	(3,110)
Other	-	(208)
Total gross deferred tax liabilities	(242,714)	(252,370)
Net deferred tax liabilities	$ (26,506)	(61,720)

There was no valuation allowance for deferred tax assets at December 31, 2008 and 2007. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

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As discussed in Note 1, the Company adopted FIN 48 in 2007. In connection with the adoption, the Company assessed whether it had any significant uncertain tax positions and determined that there were none. Accordingly, no reserve for uncertain tax positions was recorded. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income tax accounts; no such accruals exist as of December 31, 2008 or 2007. The Company and its corporate subsidiaries file a consolidated U.S. federal income tax return, which is subject to examination for all years after 2004.

During 2008, the Company was notified that its 2005 tax return amendment, which was filed September 2007, was being audited by the IRS. The audit is currently in progress. Adjustments to the amended return are not expected to have any material effect on the financial condition or operating results of the Company.

The Company files a consolidated Federal income tax return with its subsidiaries. Allocation of the consolidated tax liability is based on separate return calculations pursuant to the "wait-and-see" method as described in sections 1.1552-1(a)(1) and 1.1502-33(d)(2) of the current Treasury Regulations. Under this method, consolidated group members are not given current credit for net losses until future net taxable income is generated to realize such credits.

(6) TRANSACTIONS WITH CONTROLLING STOCKHOLDER AND AFFILIATES

(A) Life Interest in Libbie Shearn Moody Trust

The Company's wholly-owned subsidiary, NWL Services, Inc., is the beneficial owner of a life interest (1/8 share) in the net income of the trust estate of Libbie Shearn Moody ("Trust") which was previously owned by Robert L. Moody, Chairman of the Board of Directors of the Company. The Company has issued term insurance policies on the life of Mr. Moody which are reinsured through agreements with unaffiliated insurance companies. The Company is the beneficiary of these policies for an amount equal to the statutory admitted value of the Trust, which was $12.8 million at December 31, 2008. The excess of the $27.0 million face amount of the reinsured policies over the statutory admitted value of the Trust has been assigned to Mr. Moody. The recorded net asset values included in other long-term investments in the accompanying consolidated financial statements for the life interest in the Trust are as follows:

		December 31,	
		2008	2007
		(In thousands)	
Original valuation of life interest at February 26, 1960	$	13,793	13,793
Less accumulated amortization		(12,491)	(12,173)
Carrying basis at year end	$	1,302	1,620

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Income from the Trust and related expenses reflected in investment income in the accompanying consolidated statements of earnings are summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Income distributions	$ 4,105	4,057	4,500
Deduct:			
Amortization	(318)	(314)	(312)
Reinsurance premiums	(807)	(807)	(807)
Net income from life interest in the Trust	$ 2,980	2,936	3,381

(B) Common Stock

Robert L. Moody, Chairman of the Board of Directors, owns 99.0% of the total outstanding shares of the Company's Class B common stock and 33.9% of the Class A common stock as of December 31, 2008.

Holders of the Company's Class A common stock elect one-third of the Board of Directors of the Company, and holders of the Class B common stock elect the remainder. Any cash or in-kind dividends paid on each share of Class B common stock shall be only one-half of the cash or in-kind dividends paid on each share of Class A common stock. Also, in the event of liquidation of the Company, the Class A stockholders shall first receive the par value of their shares; then the Class B stockholders shall receive the par value of their shares; and the remaining net assets of the Company shall be divided between the stockholders of both Class A and Class B common stock, based on the number of shares held.

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(7) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Going forward future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of December 31 for the respective year. A detail of plan disclosures is provided below.

Obligations and Funded Status

		December 31, 2008	December 31, 2007
		(In thousands)	
Changes in projected benefit obligations:			
Projected benefit obligations at beginning of year	$	18,614	18,257
Service cost		-	720
Interest cost		1,036	1,086
Plan curtailment		-	(801)
Actuarial (gain) loss		(817)	797
Benefits paid		(1,069)	(1,445)
Projected benefit obligations at end of year		17,764	18,614
Changes in plan assets:			
Fair value of plan assets at beginning of year		15,226	14,153
Actual return on plan assets		(3,176)	699
Contributions		1,050	1,819
Benefits paid		(1,069)	(1,445)
Fair value of plan assets at end of year		12,031	15,226
Funded status at end of year	$	(5,733)	(3,388)

		December 31, 2008	December 31, 2007
		(In thousands)	
Amounts recognized in the Company's consolidated financial statements:			
Assets	$	-	-
Liabilities		(5,733)	(3,388)

Net amount recognized	$	(5,733)	(3,388)
Amounts recognized in accumulated other comprehensive income:			
Net loss	$	8,863	5,608
Prior service cost		27	31
Net amount recognized	$	8,890	5,639

The accumulated benefit obligation was $17.8 million and $18.6 million at December 31, 2008 and 2007, respectively.

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Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Components of net periodic benefit costs:			
Service cost	$ -	720	691
Interest cost	1,036	1,086	1,021
Expected return on plan assets	(1,140)	(1,100)	(947)
Amortization of prior service cost	4	4	4
Amortization of net loss	242	321	352
Net periodic benefit cost	142	1,031	1,121
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss	3,497	396	
Amortization of prior service cost	(4)	(4)	
Amortization of net gain	(242)	(320)	
Total recognized in other comprehensive income	3,251	72	
Total recognized in net periodic benefit cost and other comprehensive income	$ 3,393	1,103	

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be based on the average expected future service of plan participants. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be minimal.

Assumptions

	December 31,	
	2008	2007
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	6.00%	6.00%
Rate of compensation increase	n/a	4.50%

	December 31,		
	2008	2007	2006
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	6.00%	6.00%	6.00%

Expected long-term return on plan assets	7.50%	7.50%	7.50%
Rate of compensation increase	n/a	4.50%	4.50%

The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plan and the various classes of invested funds, based on the input of the plan's investment advisors and consulting actuary and the plan's historic rate of return. As of December 31, 2008, the plan's average 10-year and inception-to-date returns were 1.43% and 6.09%, respectively.

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Plan Assets

The plan's weighted-average asset allocations by asset category are as follows:

	December 31,		
	2008	2007	2006
Asset Category			
Equity securities	58%	59%	60%
Debt securities	36%	35%	35%
Cash and cash equivalents	6%	6%	5%
Total	100%	100%	100%

The Company has established and maintains an investment policy statement for the assets held in the plan's trust. The investment strategies are of a long-term nature and are designed to meet the following objectives:

- ensure that funds are available to pay benefits as they become due
- set forth an investment structure detailing permitted assets and expected allocation ranges among classes
- ensure that plan assets are managed in accordance with ERISA

The investment policy statement sets forth the following acceptable ranges for each asset's class.

Asset Category	Acceptable Range
Equity securities	55-65%
Debt securities	30-40%
Cash and cash equivalents	0-15%

Deviations from these ranges are permitted if such deviations are consistent with the duty of prudence under ERISA. Investments in natural resources, venture capital, precious metals, futures and options, real estate, and other vehicles that do not have readily available objective valuations are not permitted. Short sales, use of margin or leverage, and investment in commodities and art objects are also prohibited.

The investment policy statement is reviewed annually to insure that the objectives are met considering any changes in benefit plan design, market conditions, or other material considerations.

Contributions

The Company expects to contribute $600,000 to the plan during 2009, although additional amounts may be contributed. The plan’s funding status is reviewed periodically throughout the year by the Company’s Pension Plan Committee. The Company intends to contribute at least the minimum amounts necessary for tax compliance and to

maintain an Adjusted Funding Target Attainment Percentage (AFTAP) of over 80% to meet the Pension Protection Act Plan's threshold.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2009	$	1,122
2010		1,174
2011		1,241
2012		1,261
2013		1,265
2014-2018		6,269

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The Company also sponsors three non-qualified defined benefit pension plans. The first plan covers certain senior officers and provides benefits based on the participants' years of service and compensation. The primary pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO") a related party. ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the pension plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to this plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

Effective July 1, 2005, the Company established a second non-qualified defined benefit plan for the benefit of the Chairman of the Company. This plan is intended to provide for post-2004 benefit accruals that mirror and supplement the pre-2005 benefit accruals under the previously discussed non-qualified plan, while complying with the requirements of the Act.

Effective November 1, 2005, the Company established a third non-qualified defined benefit plan for the benefit of the President of the Company. This plan in intended to provide for post-2004 benefit accruals that supplement the pre-2005 benefit accruals under the first non-qualified plan as previously discussed, while complying with the requirements of the Act.

A detail of plan disclosures related to the amendments of the original plan and the additional two plans is provided below:

Obligations and Funded Status

	December 31, 2008	December 31, 2007
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	$ 17,104	13,696
Service cost	586	773
Interest cost	1,190	962
Actuarial loss	3,764	3,257
Benefits paid	(1,904)	(1,584)
Projected benefit obligations at end of year	20,740	17,104
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Contributions	1,904	1,584
Benefits paid	(1,904)	(1,584)

Fair value of plan assets at end of year		-	-
Funded status at end of year	$	(20,740)	(17,104)

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		December 31,	
		2008	2007
		(In thousands)	
Amounts recognized in the Company's consolidated financial statements:			
Assets	$	-	-
Liabilities		(20,740)	(17,104)
Net amount recognized	$	(20,740)	(17,104)
Amounts recognized in accumulated other comprehensive income:			
Net loss	$	9,589	6,532
Prior service cost		2,551	3,591
Net amount recognized	$	12,140	10,123

The accumulated benefit obligation was $17.4 million and $13.7 million at December 31, 2008 and 2007, respectively.

Components of Net Periodic Benefit Cost

		Years Ended December 31,		
		2008	2007	2006
			(In thousands)	
Components of net periodic benefit cost:				
Service cost	$	586	773	1,631
Interest cost		1,190	962	708
Amortization of prior service cost		1,039	1,039	1,040
Amortization of net loss		707	404	182
Net periodic benefit cost		3,522	3,178	3,561

Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss		3,764	3,257
Amortization of prior service cost		(1,039)	(1,039)
Amortization of net gain		(707)	(404)
Total recognized in other comprehensive income		2,018	1,814
Total recognized in net periodic benefit cost and other comprehensive income	$	5,540	4,992

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be based on the average expected future service of plan participants. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be $1.0 million.

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Assumptions

	December 31,	
	2008	2007
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	6.00%	6.00%
Rate of compensation increase	4.00%	4.00%

		December 31,	
	2008	2007	2006
Weighted-average assumptions used to determine net periodic benefit costs:			
Discount rate	6.00%	6.00%	6.00%
Expected long-term return on plan assets	n/a	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%

The plan is unfunded and therefore no assumption has been made related to the expected long-term return on plan assets.

Plan Assets

The plan is unfunded and therefore had no assets at December 31, 2008 or 2007.

Contributions

The Company expects to contribute $2.0 million to the plan in 2009.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2009	$	1,957
2010		1,957
2011		1,957
2012		1,957
2013		1,957
2014-2018		9,788

(B) Defined Contribution Pension Plans

In addition to the defined benefit pension plans, the Company sponsors a qualified 401(k) plan for substantially all employees and a non-qualified deferred compensation plan primarily for senior officers. The Company makes annual contributions to the 401(k) plan of one percent and two percent of each employee's compensation in 2008 and 2007, respectively. Additional Company matching contributions of up to two percent of each employee's compensation are also made each year based on the employee's personal level of salary deferrals to the plan. All Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2008, 2007, and 2006, Company contributions totaled $344,000, $432,000, and $423,000, respectively.

The non-qualified deferred compensation plan was established to allow eligible employees to defer the payment of a percentage of their compensation and to provide for additional Company contributions. Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2008, 2007, and 2006, Company contributions totaled $46,000, $61,000, and $32,000, respectively.

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(C) Defined Benefit Postretirement Plans

The Company sponsors two health care plans that were amended in 2004 to provide postretirement benefits to certain fully-vested individuals. The plans are unfunded. The Company uses a December 31 measurement date for the plans. A detail of plan disclosures related to these plans is provided below:

Obligations and Funded Status

		December 31,	
		2008	2007
		(In thousands)	
Changes in projected benefit obligations:			
Projected benefit obligations at beginning of year	$	2,450	2,053
Interest cost		134	141
Actuarial gain (loss)		(195)	287
Benefits paid		(59)	(31)
Projected benefit obligations at end of year		2,330	2,450
Changes in plan assets:			
Fair value of plan assets at beginning of year		-	-
Contributions		59	31
Benefits paid		(59)	(31)
Fair value of plan assets at end of year		-	-
Funded status at end of year	$	(2,330)	(2,450)

		December 31,	
		2008	2007
		(In thousands)	
Amounts recognized in the Company's consolidated financial statements:			
Assets	$	-	-
Liabilities		(2,330)	(2,450)
Net amount recognized	$	(2,330)	(2,450)
Amounts recognized in accumulated other comprehensive income:			
Net gain	$	277	478
Prior service cost		1,082	1,186
Net amount recognized	$	1,359	1,664

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Components of Net Periodic Benefit Cost

		Years Ended December 31,		
		2008	2007	2006
		(In thousands)		
Components of net periodic benefit cost:				
Interest cost	$	134	141	117
Amortization of prior service costs		103	103	103
Amortization of net loss		7	29	-
Net periodic benefit cost		244	273	220
Other change in plan assets and benefit obligations recognized in other comprehensive income:				
Net (gain) loss		(195)	287	
Amortization of prior service cost		(103)	(103)	
Amortization of net gain		(7)	(29)	
Total recognized in other comprehensive income		(305)	155	
Total recognized in net periodic benefit cost and other comprehensive income	$	(61)	428	

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be based on the average expected future service of plan participants. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be $0.1 million.

Assumptions

A weighted-average discount rate assumption of 6.0% was used to determine benefit obligations and net periodic benefit cost as of and for the years ended December 31, 2008 and 2007. No assumption was made related to the expected long-term return on plan assets as the plan is unfunded.

For measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009 and future years.

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A 1% point change in assumed health care cost trend rates would have the following effects for the years ended December 31:

	2008		2007	
	1% Point Increase	1% Point Decrease	1% Point Increase	1% Point Decrease
	(In thousands)			
Effect on total of service and interest				

cost components	$	20	(27)	32	(24)
Effect on postretirement benefit obligation	$	472	(368)	560	(428)

Plan Assets

The plans are unfunded and therefore had no assets at December 31, 2008 and 2007.

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Contributions

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2009	$ 80,892
2010	87,363
2011	94,354
2012	101,901
2013	110,053
2014-2018	697,286

(8) SHORT-TERM BORROWINGS

The Company has available a $40 million bank line of credit primarily for cash management purposes relating to investment transactions. The Company is required to maintain a collateral security deposit in trust with the sponsoring bank equal to 120% of any outstanding liability. The Company had no outstanding liabilities with the bank at December 31, 2008 or 2007. The Company had assets having an amortized value of $57.4 million on deposit with the lender at year end 2008.

(9) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

The Company is a defendant in two class action lawsuits. In one case, the Court has certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The Court has additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously, against the Company. A second class action lawsuit in federal court in California is in discovery with no class certification motion pending. Management believes that the Company has good and meritorious defenses and intends to continue to vigorously defend itself against these claims.

The Company is involved or may become involved in various other legal actions, in the normal course of business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from potential, pending, or threatened legal actions, will have a material adverse effect on the financial condition or operating results of the Company.

In January 2009, the SEC published its newly adopted rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defines "indexed annuities to be securities and thus subject to regulation by the SEC and under federal securities laws". Currently indexed annuities sold by life insurance companies are regulated by the States as Insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain "annuity contracts," "optional annuity contracts," and other insurance contracts. The new rule is not effective until January 12, 2011. The Company and others have filed suit in the U. S. Court of Appeals for the District of Columbia to overturn this rule. In the event rule 151A is not overturned, it could have a material effect on our business, results of operations and financial condition.

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(B) Financial Instruments

In order to meet the financing needs of its customers in the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments are commitments to extend credit which involve elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amounts, assuming that the amounts are fully advanced and that collateral or other security is of no value. Commitments to extend credit are legally binding agreements to lend to a customer that generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments do not necessarily represent future liquidity requirements, as some could expire without being drawn upon. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company controls the credit risk of these transactions through credit approvals, limits, and monitoring procedures.

The Company had no commitments to extend credit relating to mortgage loans at December 31, 2008. The Company evaluates each customer's creditworthiness on a case-by-case basis.

(C) Guaranty Association Assessments

The Company is subject to state guaranty association assessments in all states in which it is licensed to do business. These associations generally guarantee certain levels of benefits payable to resident policyholders of insolvent insurance companies. Many states allow premium tax credits for all or a portion of such assessments, thereby allowing potential recovery of these payments over a period of years. However, several states do not allow such credits.

The Company estimates its liabilities for guaranty association assessments by using the latest information available from the National Organization of Life and Health Insurance Guaranty Associations. The Company monitors and revises its estimates for assessments as additional information becomes available which could result in changes to the estimated liabilities. As of December 31, 2008 and 2007, liabilities for guaranty association assessments totaled $1.4 million and $1.3 million, respectively. Other operating expenses related to state guaranty association assessments were minimal for the years ended December 31, 2008, 2007, and 2006.

(D) Leases

The Company leases its executive office building and various computers and other office related equipment under operating leases. Rental expenses for these leases were $0.9 million for the years ended December 31, 2008, 2007, and 2006. Total future annual lease obligations as of December 31, 2008, are as follows:

2009	$	987,700
2010		354,600
2011		-
2012 and thereafter		-
Total	$	1,342,300

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(E) Compensation Plan

Effective January 1, 2006, the Company implemented a Non-Qualified Deferred Compensation Plan to provide incentive bonuses to eligible agents. Agents qualify for participation by meeting certain sales goals each year. Company contributions are subject to a vesting schedule based on the agents' years of qualification in the plan. The Company expects to contribute $0.5 million to the plan in 2009.

(10) STOCKHOLDERS' EQUITY

(A) Changes in Common Stock Shares Outstanding

Details of changes in shares of common stock outstanding are provided below.

	Years Ended December 31,		
	2008	2007	2006
		(In thousands)	
Common stock shares outstanding:			
Shares outstanding at beginning of year	3,622	3,621	3,613
Shares exercised under stock option plan	4	1	8
Shares outstanding at end of year	3,626	3,622	3,621

(B) Dividend Restrictions

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The restrictions are based on statutory earnings and surplus levels of the Company. The maximum dividend payment which may be made without prior approval in 2009 is $70.4 million.

On August 22, 2008, the Board of Directors of the Company declared a cash dividend to stockholders on record as of October 31, 2008 and payable November 28, 2008. The dividends approved were $0.36 per common share to Class A stockholders and $0.18 per common share to Class B stockholders.

(C) Regulatory Capital Requirements

The Colorado Division of Insurance imposes minimum risk-based capital requirements on insurance companies that were developed by the National Association of Insurance Commissioners ("NAIC"). The formulas for determining the amount of risk-based capital ("RBC") specify various weighting factors that are applied to statutory financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the Company's regulatory total adjusted capital to its authorized control level RBC, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The Company's current statutory capital and surplus is significantly in excess of all RBC requirements.

(D) Share-Based Payments

The Company has a stock and incentive plan ("1995 Plan") which provides for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, $1.00 par value, common stock which may be issued under the 1995 Plan, or as to which stock appreciation rights or other awards may be granted, may not exceed 300,000. Effective June 20, 2008, the Company's shareholders approved a 2008 Incentive Plan ("2008 Plan"). The 2008 Plan is substantially similar to the 1995 Plan and authorized an additional number of Class A, $1.00 per value, common stock shares eligible for issue not to exceed 300,000. These shares may be authorized and unissued shares. The Company has only issued nonqualified stock options and stock appreciation rights.

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All of the employees of the Company and its subsidiaries are eligible to participate in the two Plans. In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' grants vest 20% annually following one full year of service to the Company from the date of grant. The employees' grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years.

Effective March 10, 2006, as more fully described below, the Company's Plan classification was changed to liability accounting and accordingly, the Company began using the current fair value method to measure compensation cost. For the years ended December 31, 2008 and 2007, the liability balance was $3.8 million and $7.7 million, respectively. A summary of shares available for grant and stock option activity is detailed below.

		Options Outstanding	
	Shares Available For Grant	Shares	Weighted-Average Exercise Price
Balance at January 1, 2008	27,668	94,984	$ 128.47
Stock Options:			
Exercised	-	(25,440)	105.77
Forfeited	1,000	(1,000)	150.00
Stock options granted April 18, 2008	(28,268)	28,268	255.13
2008 Plan addition	300,000	-	-
Stock options granted June 20, 2008	(9,000)	9,000	208.05
Balance at December 31, 2008	291,400	105,812	$ 174.33

	Stock Appreciation Rights Outstanding	
	Awards	Weighted-Average Exercise Price
Plan adoption June 20, 2008	-	$ -
Stock Appreciation Rights:		
SARs granted August 21, 2008	1,250	236.00
SARs granted September 2, 2008	1,000	251.49
SARs granted September 22, 2008	500	256.00
Balance at December 31, 2008	2,750	$ 245.70

The total intrinsic value of options exercised was $2.8 million, $4.6 million, and $3.3 million for the years ended December 31, 2008, 2007, and 2006, respectively. The total share-based liabilities paid were $2.5 million and $4.4 million for the years ended 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007, the total

cash received from the exercise of options under the Plan was $0.4 million and $0.1 million, respectively. The total fair value of shares vested during 2008 and 2007 was $2.0 million and $3.2 million, respectively.

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The following table summarizes information about stock options and SARs outstanding at December 31, 2008.

	Options Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
$ 92.13	10,194	2.3 years	10,194
95.00	6,000	2.5 years	6,000
150.00	52,350	5.3 years	21,450
255.13	28,268	9.3 years	-
208.05	9,000	9.5 years	-
236.00	1,250	9.6 yeras	-
251.49	1,000	9.7 years	-
256.00	500	9.7 years	-
Totals	108,562		37,644
Aggregate intrinsic value (in thousands)	$ 2,234		$ 1,642

The aggregate intrinsic value in the table above is based on the closing stock price of $169.17 per share on December 31, 2008.

In estimating the fair value of the options outstanding at December 31, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	2008	2007
Expected term of options	2 to 10 years	2 to 6 years
Expected volatility:		
Range	24.70% to 77.55%	18.84% to 27.56%
Weighted-average	37.10%	22.25%
Expected dividend yield	0.22%	0.17%
Risk-free rate:		
Range	1.44% to 2.40%	3.02% to 3.68%
Weighted-average	1.94%	3.28%

The Company reviewed the contractual term relative to the options as well as perceived future behavior patterns of exercise. Volatility is based on the Company's historical volatility over the expected term.

The pre-tax compensation cost recognized in the financial statements related to the Plan was $(1.4) million, $(1.1) million, and $13.1 million for the years ended December 31, 2008, 2007, and 2006, respectively. The related tax (expense)/benefit recognized was $(0.5) million, $(0.4) million and $4.6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Effective during March 2006, the Company adopted and implemented a limited stock buy-back program which provides option holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election. The buy-back program did not alter the terms and conditions of the Plan, however the program necessitated a change in accounting from the equity classification to the liability classification. The modification affected 35 plan participants who had options outstanding on the date of modification and resulted in $11.7 million of total incremental pre-tax compensation cost due to the change from the equity to liability classification.

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In August 2008, the Company implemented another limited stock buy-back program, substantially similar to the 2006, program for shares issued under the 2008 Plan.

For the years ended December 31, 2008, 2007, and 2006, the total compensation cost related to nonvested options not yet recognized was $1.3 million, $1.1 million, and $2.9 million, respectively. This amount is expected to be recognized over a weighted-average period of 2.4 years. The Company recognizes compensation cost over the graded vesting periods.

(11) EARNINGS PER SHARE

Earnings per share amounts for the Company are presented using two different computations. Basic earnings per share excludes dilutive effects of certain securities or contracts, such as stock options, and is computed by dividing income available to each class of common stockholders on an as if distributed basis by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock, that then shared in the distributed earnings of each class of common stock. Stock options not included in the weighted-average number of diluted shares, because such shares would have been anti-dilutive, were immaterial. U.S. GAAP requires a two-class presentation for the Company's two classes of common stock (Note 6B). Accordingly, the earnings per share for both Class A and Class B are presented. The following table sets forth the computations of basic and diluted earnings per share.

	Years Ended December 31,					
	2008		2007		2006	
	Class A	Class B	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)					
Numerator for Basic and Diluted Earnings Per Share:						
Net income	$ 33,642		85,371		76,343	
Dividends – Class A shares	(1,233)		(1,232)		(1,231)	
Dividends – Class B shares	(36)		(36)		(36)	
Undistributed income	$ 32,373		84,103		75,076	
Allocation of net income:						
Dividends	$ 1,233	36	1,232	36	1,231	36
Allocation of undistributed income	31,455	919	81,715	2,388	72,944	2,132
Net income	$ 32,688	955	82,947	2,424	74,175	2,168
Denominator:						

Basic earnings per share - weighted-average shares		3,425	200	3,422	200	3,421	200
Effect of dilutive stock options		23	-	42	-	36	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions		3,448	200	3,464	200	3,457	200
Basic Earnings Per Share	$	9.54	4.77	24.24	12.12	21.69	10.84
Diluted Earnings Per Share	$	9.48	4.77	23.95	12.12	21.46	10.84

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(12) COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. This Statement requires that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This statement requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

SFAS No. 130 affects the Company's reporting presentation of certain items such as foreign currency translation adjustments, unrealized gains and losses on investment securities, and minimum pension liabilities. These items are reflected as components of other comprehensive income (loss), as reported in the accompanying consolidated financial statements. Components of other comprehensive income (loss) and the related tax effect are provided below for 2008, 2007, and 2006.

	Amounts Before Taxes	Tax (Expense) Benefit	Amounts Net of Taxes
		(In thousands)	
2008:			
Unrealized gains (losses) on securities, net of effects of deferred costs of $70,524:			
Net unrealized holding losses arising during period	$ (102,752)	35,963	(66,789)
Reclassification adjustment for net losses included in net earnings	18,256	(6,390)	11,866
Amortization of net unrealized gains related to transferred securities	(47)	16	(31)
Net unrealized losses on securities	(84,543)	29,589	(54,954)
Foreign currency translation adjustments	(172)	60	(112)
Pension liability adjustment	(4,965)	1,738	(3,227)
Other comprehensive loss	$ (89,680)	31,387	(58,293)

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	Amounts Before Taxes	Tax (Expense) Benefit (In thousands)	Amounts Net of Taxes
2007:			
Unrealized gains (losses) on securities, net of effects of deferred costs of $(4,415):			
Net unrealized holding gains arising during period	$ 1,593	(558)	1,035
Reclassification adjustment for net gains included in net earnings	(4,773)	1,670	(3,103)
Amortization of net unrealized losses related to transferred securities	160	(56)	104
Net unrealized losses on securities	(3,020)	1,056	(1,964)
Foreign currency translation adjustments	(68)	24	(44)
Pension liability adjustment	(2,040)	714	(1,326)
Other comprehensive loss	$ (5,128)	1,794	(3,334)

	Amounts Before Taxes	Tax (Expense) Benefit (In thousands)	Amounts Net of Taxes
2006:			
Unrealized gains (losses) on securities, net of effects of deferred costs of $12,702:			
Net unrealized holding losses arising during period	$ (6,988)	2,446	(4,542)
Reclassification adjustment for net gains included in net earnings	(4,209)	1,473	(2,736)
Amortization of net unrealized losses related to transferred securities	39	(14)	25
Net unrealized losses on securities	(11,158)	3,905	(7,253)
Foreign currency translation adjustments	(274)	96	(178)
Pension liability adjustment	(1,793)	627	(1,166)
Other comprehensive loss	$ (13,225)	4,628	(8,597)

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(13) SEGMENT AND OTHER OPERATING INFORMATION

(A) Operating Segment Information

Under SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, the Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. The Company's segments are organized based on product types and geographic marketing areas. In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate realized investment gains and losses from operating revenues and earnings. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business.

A summary of segment information, prepared in accordance with SFAS No. 131, is provided below.

		Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
				(In thousands)		
2008:						
Selected Balance Sheet Items:						
Deferred policy acquisition costs and sales inducements	$	64,748	222,263	535,928	-	822,939
Total segment assets		397,413	842,119	5,369,920	127,189	6,736,641
Future policy benefits		319,485	598,843	4,644,170	-	5,562,498
Other policyholder liabilities		10,456	16,397	105,110	-	131,963
Condensed Income Statements:						
Premiums and contract revenues	$	27,919	97,661	25,596	-	151,176
Net investment income		20,254	17,350	226,683	9,075	273,362
Other income		20	62	232	12,455	12,769
Total revenues		48,193	115,073	252,511	21,530	437,307
Life and other policy benefits		14,478	21,292	3,990	(1)	39,759
Amortization of deferred policy acquisition costs		12,416	37,525	77,219	1	127,161
Universal life and investment annuity contract interest		9,171	16,803	112,986	-	138,960
Other operating expenses		11,057	16,502	16,685	11,386	55,630
Federal income taxes		354	7,601	13,789	3,363	25,107
Total expenses		47,476	99,723	224,669	14,749	386,617
Segment earnings	$	717	15,350	27,842	6,781	50,690

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		Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
				(In thousands)		
2007:						
Selected Balance Sheet Items:						
Deferred policy acquisition						
costs and sales inducements	$	58,883	204,322	505,629	-	768,834
Total segment assets		399,097	796,012	5,500,226	106,039	6,801,374
Future policy benefits		320,287	556,893	4,703,363	-	5,580,543
Other policyholder liabilities		9,641	16,729	94,030	-	120,400
Condensed Income Statements:						
Premiums and contract						
revenues	$	25,879	88,782	24,529	-	139,190
Net investment income		18,863	24,690	266,953	7,631	318,137
Other income		41	126	920	12,596	13,683
Total revenues		44,783	113,598	292,402	20,227	471,010
Life and other policy benefits		14,922	22,810	3,594	-	41,326
Amortization of deferred						
policy acquisition costs		7,998	24,959	55,456	-	88,413
Universal life and investment						
annuity contract interest		9,463	20,993	133,935	-	164,391
Other operating expenses		11,898	15,271	16,931	11,030	55,130
Federal income taxes		160	9,386	26,187	2,919	38,652
Total expenses		44,441	93,419	236,103	13,949	387,912
Segment earnings	$	342	20,179	56,299	6,278	83,098

		Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
				(In thousands)		
2006:						
Selected Balance Sheet Items:						
Deferred policy acquisition						
costs and sales inducements	$	50,965	182,268	503,870	-	737,103
Total segment assets		381,490	715,064	5,467,733	103,087	6,667,374
Future policy benefits		314,039	498,997	4,720,421	-	5,533,457
Other policyholder liabilities		7,796	18,480	86,173	-	112,449
Condensed Income Statements:						
Premiums and contract						
revenues	$	22,731	78,005	21,389	-	122,125
Net investment income		20,462	28,530	323,326	7,450	379,768
Other income		29	78	5,950	11,247	17,304

Total revenues		43,222	106,613	350,665	18,697	519,197
Life and other policy benefits		13,656	18,161	3,424	-	35,241
Amortization of deferred						
policy acquisition costs		7,313	23,075	59,970	-	90,358
Universal life and investment						
annuity contract interest		9,168	25,675	178,893	-	213,736
Other operating expenses		12,630	21,051	21,847	10,181	65,709
Federal income taxes		158	6,460	29,972	2,950	39,540
Total expenses		42,925	94,422	294,106	13,131	444,584
Segment earnings	$	297	12,191	56,559	5,566	74,613

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Reconciliations of segment information to the Company's consolidated financial statements are provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Premiums and Other Revenue:			
Premiums and contract revenues	$ 151,176	139,190	122,125
Net investment income	273,362	318,137	379,768
Other income	12,769	13,683	17,304
Realized gains (losses) on investments	(26,228)	3,497	2,662
Total consolidated premiums and other revenue	$ 411,079	474,507	521,859

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Federal Income Taxes:			
Total segment Federal income taxes	$ 25,107	38,652	39,540
Taxes on realized gains (losses) on investments	(9,180)	1,224	932
Total taxes on consolidated net earnings	$ 15,927	39,876	40,472

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Net Earnings:			
Total segment earnings	$ 50,690	83,098	74,613
Realized gains (losses) on investments, net of taxes	(17,048)	2,273	1,730
Total consolidated net earnings	$ 33,642	85,371	76,343

	December 31,		
	2008	2007	2006
	(In thousands)		
Assets:			
Total segment assets	$ 6,736,641	6,801,374	6,667,374
Other unallocated assets	49,839	33,952	26,069
Total consolidated assets	$ 6,786,480	6,835,326	6,693,443

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(B) Geographic Information

A significant portion of the Company's premiums and contract revenues are from countries other than the United States. Premiums and contract revenues detailed by country are provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
United States	$ 66,091	61,637	48,561
Brazil	25,786	20,161	16,851
Taiwan	12,246	10,098	9,052
Argentina	9,352	8,987	8,811
Chile	9,245	8,465	8,324
Venezuela	8,739	7,925	6,905
Other foreign countries	40,150	38,238	37,112
Revenues, excluding reinsurance premiums	171,609	155,511	135,616
Reinsurance premiums	(20,433)	(16,321)	(13,491)
Total premiums and contract revenues	$ 151,176	139,190	122,125

Premiums and contract revenues are attributed to countries based on the location of the policyholder. The Company has no significant assets, other than financial instruments, located in countries other than the United States.

(C) Major Agency Relationships

A significant portion of the Company's premiums and deposits were sold through two independent marketing agencies in recent years. Combined business from these agencies accounted for approximately 22%, 22%, and 21% of total direct premium revenues and universal life and annuity contract deposits in 2008, 2007, and 2006, respectively.

(14) FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted SFAS 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. The Company adopted this guidance effective January 1, 2008 and the adoption did not have an impact on the Company’s consolidated financial statements.

In compliance with SFAS No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the Consolidated Balance Sheets are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company’s Level 1 assets include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs. The Company's Level 2 assets include fixed maturity debt securities (corporate and private bonds, government or agency securities, asset-backed and mortgage-backed securities), preferred stock, certain equity securities, and over-the-counter derivative contracts. The Company's Level 2 liabilities consist of certain product-related embedded derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or determined through use of valuation methodologies using observable market inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. The Company's Level 3 assets include certain equity securities and certain less liquid or private fixed maturity debt securities where significant valuation inputs cannot be corroborated with market observable data. The Company's Level 3 liabilities consist of share-based compensation obligations. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

The following table sets forth the Company's assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

	December 31, 2008			
Description	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$ 1,731,583	-	1,721,341	10,242
Equity securities, available for sale	13,683	302	6,191	7,190
Derivatives	11,920	-	11,920	-
Total assets	$ 1,757,186	302	1,739,452	17,432
Policyholder account balances (a)	$ 19,377	-	19,377	-
Other liabilities (b)	3,787	-	-	3,787
Total liabilities	$ 23,164	-	19,377	3,787

(a) Represents the fair value of certain product-related embedded derivatives that were recorded at fair value.
(b) Represents the liability for share-based compensation.

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The following table provides additional information about fair value measurements for which significant unobservable (Level 3) inputs were utilized to determine fair value.

	For the Twelve Months Ended December 31, 2008			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, January 1, 2008	$ 1,618	7,147	8,765	7,712
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	(1,424)
Included in other comprehensive loss	(2,773)	43	(2,730)	-
Purchases, sales, issuances and settlements, net	(527)	-	(527)	(2,501)
Transfers into (out of) Level 3	11,924	-	11,924	-
Ending balance, December 31, 2008	$ 10,242	7,190	17,432	3,787
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held as of December 31, 2008	$ -	-	-	(2,321)

Realized gains (losses) on Level 3 assets and liabilities are reported in the consolidated statements of earnings as net investment gains (losses), unrealized gain (losses) on debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity.

The fair value hierarchy classifications are reviewed each reporting period. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. Reclassifications are reported as transfers into and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

Investment securities. Fair values for investments in debt and equity securities are based on quoted market prices, where available. For securities not actively traded, fair values are estimated using values obtained from various independent pricing services. In the cases where prices are unavailable from these sources, values are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments.

Cash and short-term investments. The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

Mortgage and other loans. The fair values of performing mortgage and other loans are estimated by discounting scheduled cash flows through the scheduled maturities of the loans, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Fair values for significant nonperforming loans are based on recent internal or external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows,

and discount rates are judgmentally determined using available market information and specific borrower information.

Policy Loans. The carrying value of policy loans approximates fair values.

Derivatives. Fair values for indexed options are based on counterparty market prices.

Life interest in Libbie Shearn Moody Trust. The fair value of the life interest is estimated based on assumptions as to future distributions from the Trust over the life expectancy of Mr. Robert L. Moody. These estimated cash flows were discounted at a rate consistent with uncertainties relating to the amount and timing of future cash distributions. However, the Company has limited the fair value to the statutory admitted value of the Trust, as this is the maximum amount to be received from insurance proceeds in the event of Mr. Moody's premature death.

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Annuity and supplemental contracts. Fair values for the Company's insurance contracts other than annuity contracts are not required to be disclosed. This includes the Company's traditional and universal life products. Fair values for immediate annuities without mortality features are based on the discounted future estimated cash flows using current market interest rates for similar maturities. Fair values for deferred annuities, including fixed-indexed annuities, are determined using estimated projected future cash flows discounted at the rate that would be required to transfer the liability in an orderly transaction. The fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance and annuity contracts.

The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Values	Fair Values	Carrying Values	Fair Values
	(In thousands)			
ASSETS				
Investments in debt and equity securities:				
Securities held to maturity	$ 3,831,417	3,727,353	3,778,603	3,774,193
Securities available for sale	1,745,266	1,745,266	1,900,714	1,900,714
Cash and short-term investments	67,796	67,796	45,206	45,206
Mortgage loans	90,733	90,884	99,033	100,786
Policy loans	79,277	79,277	83,772	83,772
Other loans	1,541	1,572	2,327	2,383
Derivatives	11,920	11,920	25,907	25,907
Life interest in Libbie Shearn Moody Trust	1,302	12,775	1,620	12,775
LIABILITIES				
Deferred annuity contracts	$ 4,324,702	3,997,005	4,442,799	4,096,947
Immediate annuity and supplemental contracts	388,486	409,553	320,539	311,694

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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(15) RELATED PARTY TRANSACTIONS

Robert L. Moody, Jr. ("Mr. Moody, Jr.") is the son of Robert L. Moody, the Company's Chairman and Chief Executive Officer, and is the brother of Ross R. Moody, the Company's President and Chief Operating Officer, and of Russell S. Moody and Frances A. Moody-Dahlberg who serve as directors of National Western.

Mr. Moody, Jr. wholly owns an insurance marketing organization that maintains agency contracts with National Western pursuant to which agency commissions are paid in accordance with the Company's standard commission schedules. Mr. Moody, Jr. also maintains an independent agent contract with National Western for policies personally sold under which commissions are paid in accordance with standard commission schedules. In 2008, commissions paid under these agency contracts aggregated approximately $160,000. In conjunction with these agency contracts, Mr. Moody, Jr. may be eligible to attend Company sales conferences and functions based upon meeting published minimum levels of qualifying sales production. In his capacity as an insurance marketing organization with the Company, Mr. Moody, Jr. also received product development fees of $48,000 associated with a product line of the Company.

Mr. Moody, Jr. further serves as the agent of record for several of the Company's benefit plans including the self-insured health plan for which Mr. Moody, Jr. provides utilization review services through a wholly-owned utilization review company. In 2008, amounts paid to Mr. Moody, Jr. as commissions and service fees pertaining to the Company's benefit plans approximated $58,800.

During 2008, management fees totaling $498,106 were paid to Regent Management Services, Limited Partnership ("RMS") for services provided to a downstream nursing home subsidiary of National Western. RMS is 1% owned by general partner RCC Management Services, Inc. ("RCC"), and 99% owned by limited partner, Three R Trusts. RCC is 100% owned by the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). Charles D. Milos, Senior Vice President-Mortgage Loans and Real Estate, and a director of the Company, is a director and Vice President of RCC. Ellen C. Otte, Assistant Secretary of the Company, is a director and secretary of RCC.

The Company holds a common stock investment totaling approximately 9.4% of the issued and outstanding shares of Moody Bancshares, Inc. at December 31, 2008. Moody Bancshares, Inc. owns 100% of the outstanding shares of Moody Bank Holding Company, Inc., which owns approximately 98% of the outstanding shares of The Moody National Bank of Galveston ("MNB"). The Company utilizes MNB for certain bank custodian services as well as for certain administrative services with respect to the Company's defined benefit and contribution plans. Robert L. Moody, the Company’s Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of MNB. The ultimate controlling person of MNB is the Three R Trusts. During 2008, fees totaling $170,000 were paid to MNB with respect to these services.

Beginning November 1, 2008, the Company entered into a 36 month sublease on one of the Company’s leased office locations for $6,000 per month with Moody National Bank. Robert L. Moody, the Company’s Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of MNB.

During 2008 the Company paid American National Insurance Company (“ANICO”) $244,818 in premiums for certain company sponsored benefit plans and $1,126,992 in reimbursements for claim costs for which ANICO provides third party administrative services. ANICO paid the Company $1,173,950 in premiums for its company sponsored benefit

plans. Robert L. Moody, the Company's Chairman and Chief Executive Officer is also ANICO's Chairman and Chief Executive Officer.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) UNAUDITED QUARTERLY FINANCIAL DATA

Quarterly results of operations for 2008 are summarized as follows:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(In thousands except per share data)			
2008:					
Revenues	$	98,637	113,381	87,960	111,100
Earnings (loss)	$	14,446	18,142	(9,800)	10,853
Basic earnings (loss) per share:					
Class A	$	4.10	5.15	(2.78)	3.08
Class B	$	2.05	2.57	(1.39)	1.54
Diluted earnings (loss) per share:					
Class A	$	4.07	5.10	(2.78)	3.06
Class B	$	2.05	2.57	(1.39)	1.54

Quarterly results of operations for 2007 are summarized as follows:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(In thousands except per share data)			
2007:					
Revenues	$	114,112	148,695	112,136	99,564
Earnings	$	18,672	21,851	15,622	29,226
Basic earnings per share:					
Class A	$	5.30	6.20	4.44	8.30
Class B	$	2.65	3.10	2.22	4.15
Diluted earnings per share:					
Class A	$	5.23	6.12	4.38	8.22
Class B	$	2.65	3.10	2.22	4.15

During the fourth quarter of 2008, the Company determined that $3.2 million of additional amortization of deferred sales inducements should have been recorded in the third quarter of 2008 related to the unlocking of assumptions in that quarter. This immaterial error was corrected in the fourth quarter of 2008 and was not material to the third or fourth quarter consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE I
SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
December 31, 2008
(In thousands)

Type of Investment		(1) Cost	Fair Value	Balance Sheet Amount
Fixed maturity bonds:				
Securities held to maturity:				
United States government and government				
agencies and authorities	$	121,597	126,164	121,957
States, municipalities, and political subdivisions		23,123	22,325	23,123
Foreign governments		9,955	10,393	9,955
Public utilities		527,277	500,820	527,277
Corporate		1,334,157	1,229,533	1,334,157
Mortgage-backed		1,747,104	1,783,107	1,747,104
Asset-backed		68,204	55,011	68,204
Total securities held to maturity		3,831,417	3,727,353	3,831,417
Securities available for sale:				
United States government and government				
agencies and authorities		-	-	-
States, municipalities, and political subdivisions		77,160	63,839	63,839
Foreign Government		10,418	11,325	11,325
Public utilities		287,927	263,142	263,142
Corporate		1,239,712	1,119,247	1,119,247
Mortgage-backed		255,910	253,956	253,956
Asset-backed		25,819	20,074	20,074
Total securities available for sale		1,896,946	1,731,583	1,731,583
Total fixed maturity bonds		5,728,363	5,458,936	5,563,000
Equity securities:				
Securities available for sale:				
Common stocks:				
Public utilities		877	1,027	1,027
Banks, trust and insurance companies (2)		46	41	41
Corporate		3,340	2,997	2,997
Preferred stocks		2,649	2,428	2,428
Total equity securities		6,912	6,493	6,493
Derivatives		56,808		11,920
Mortgage loans (3)		67,116		67,116
Policy loans		79,277		79,277
Other long-term investments (4)		15,481		14,168
Total investments other than				

investments in related parties	$ 5,953,957	5,741,974

Notes:
(1) Bonds are shown at amortized cost, mortgage loans are shown at unpaid principal balances before allowances for possible losses, and real estate is stated at cost before allowances for possible losses.
(2) Equity securities with related parties having a cost of $0.2 million and balance sheet amount of $7.2 million have been excluded.
(3) Mortgage loans with related parties totaling $23.6 million have been excluded.
(4) Real estate acquired by foreclosure included in other long-term investments is as follows: cost $1.6 million; balance sheet amount $1.3 million.
See accompanying report of Independent Registered Public Accounting Firm.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE V
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2008, 2007, and 2006
(In thousands)

Description		Balance at Beginning of Period	(1) Charged to Costs and Expenses	Reductions	Transfers	Balance at End of Period
Valuation accounts deducted from applicable assets:						
Allowance for possible losses on mortgage loans:						
December 31, 2008	$	3,567	1,020	-	-	4,587
December 31, 2007	$	2,100	1,467	-	-	3,567
December 31, 2006	$	-	2,100	-	-	2,100
Allowance for possible losses on real estate:						
December 31, 2008	$	-	-	-	-	-
December 31, 2007	$	-	-	-	-	-
December 31, 2006	$	-	-	-	-	-

Notes:
(1) These amounts were recorded to realized (gains) losses on investments.

See accompanying report of Independent Registered Public Accounting Firm.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Registrant)

Date: March 13, 2009	/S/Robert L. Moody
	By: Robert L. Moody, Chairman of the Board and
	Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title (Capacity)	Date
/S/Robert L. Moody	Chairman of the Board and	March 13, 2009
Robert L. Moody	Chief Executive Officer, and Director	
	(Principal Executive Officer)	
/S/ Ross R. Moody	President and Chief Operating Officer, and Director	March 13, 2009
Ross R. Moody		
/S/ Brian M. Pribyl	Senior Vice President - Chief Financial &	March 13, 2009
Brian M. Pribyl	Administrative Officer, and Treasurer	
	(Principal Financial Officer)	
/S/Michael G. Kean	Vice President, Controller & Assistant Treasurer	March 13, 2009
Michael G. Kean	(Principal Accounting Officer)	
/S/Stephen E. Glasgow	Director	March 13, 2009
Stephen E. Glasgow		
/S/E. Douglas McLeod	Director	March 13, 2009
E. Douglas McLeod		
/S/Charles D. Milos	Director	March 13, 2009
Charles D. Milos		

/S/Frances A. Moody-Dahlberg	Director	March 13, 2009
Frances A. Moody-Dahlberg		
/S/Russell S. Moody	Director	March 13, 2009
Russell S. Moody		
/S/Louis E. Pauls, Jr.	Director	March 13, 2009
Louis E. Pauls, Jr.		
/S/E.J. Pederson	Director	March 13, 2009
E.J. Pederson		

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