NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
August 11, 2008

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2008

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

For the transition period from __________ to __________

Commission File Number: 2-17039

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Exact name of Registrant as specified in its charter)

COLORADO (State of Incorporation)	84-0467208 (I.R.S. Employer Identification Number)
850 EAST ANDERSON LANE AUSTIN, TEXAS 78752-1602 (Address of Principal Executive Offices)	(512) 836-1010 (Telephone Number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

As of August 4, 2008, the number of shares of Registrant's common stock outstanding was: Class A – 3,425,966 and Class B - 200,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	(Unaudited) June 30, 2008	December 31, 2007
Investments:		
Securities held to maturity, at amortized cost	$ 3,804,745	3,778,603
Securities available for sale, at fair value	1,884,442	1,900,714
Mortgage loans, net of allowance for possible losses ($3,571 and $3,567)	90,857	99,033
Policy loans	81,877	83,772
Derivatives	6,880	25,907
Other long-term investments	17,638	16,562
Total investments	5,886,439	5,904,591
Cash and short-term investments	33,385	45,206
Deferred policy acquisition costs	678,825	664,805
Deferred sales inducements	110,021	104,029
Accrued investment income	64,862	65,034
Federal income tax receivable	6,369	10,010
Other assets	46,429	41,651
	$ 6,826,330	6,835,326

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) June 30, 2008	December 31, 2007
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	$ 138,070	138,672
Universal life and annuity contracts	5,419,712	5,441,871
Other policyholder liabilities	123,821	120,400
Federal income tax liability:		
Current	-	-
Deferred	58,320	61,720
Other liabilities	56,863	60,978
Total liabilities	5,796,786	5,823,641
COMMITMENTS AND CONTINGENCIES (Notes 5 and 9)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,425,966 and 3,422,324 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	(22,242)	(7,065)
Retained earnings	1,011,480	978,892
Total stockholders' equity	1,029,544	1,011,685
	$ 6,826,330	6,835,326

Note: The condensed consolidated balance sheet at December 31, 2007, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months Ended June 30, 2008 and 2007
(Unaudited)
(In thousands, except per share amounts)

	2008	2007
Premiums and other revenue:		
Life and annuity premiums	$ 4,624	4,586
Universal life and annuity contract revenues	33,593	28,653
Net investment income	72,278	107,932
Other income	3,153	3,359
Realized gains (losses) on investments	(267)	4,165
Total premiums and other revenue	113,381	148,695
Benefits and expenses:		
Life and other policy benefits	7,655	10,437
Amortization of deferred policy acquisition costs	30,263	25,637
Universal life and annuity contract interest	33,555	67,385
Other operating expenses	14,627	16,367
Total benefits and expenses	86,100	119,826
Earnings before Federal income taxes	27,281	28,869
Provision for Federal income taxes:		
Current	7,928	5,073
Deferred	1,211	1,945
Total Federal income taxes	9,139	7,018
Net earnings	$ 18,142	21,851
Basic Earnings Per Share:		
Class A	$ 5.15	6.20
Class B	$ 2.57	3.10
Diluted Earnings Per Share:		
Class A	$ 5.10	6.12
Class B	$ 2.57	3.10

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Six Months Ended June 30, 2008 and 2007
(Unaudited)
(In thousands, except per share amounts)

		2008	2007
Premiums and other revenue:			
Life and annuity premiums	$	8,518	9,319
Universal life and annuity contract revenues		65,811	57,449
Net investment income		131,708	184,958
Other income		6,292	6,675
Realized gains (losses) on investments		(311)	4,406
Total premiums and other revenue		212,018	262,807
Benefits and expenses:			
Life and other policy benefits		18,111	21,411
Amortization of deferred policy acquisition costs		56,511	49,422
Universal life and annuity contract interest		60,172	104,818
Other operating expenses		28,057	30,483
Total benefits and expenses		162,851	206,134
Earnings before Federal income taxes		49,167	56,673
Provision for Federal income taxes:			
Current		11,819	9,387
Deferred		4,760	6,763
Total Federal income taxes		16,579	16,150
Net earnings	$	32,588	40,523
Basic Earnings Per Share:			
Class A	$	9.25	11.51
Class B	$	4.62	5.75
Diluted Earnings Per Share:			
Class A	$	9.18	11.35
Class B	$	4.62	5.75

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended June 30, 2008 and 2007
(Unaudited)
(In thousands)

	2008	2007
Net earnings	$ 18,142	21,851
Other comprehensive income (loss), net of effects of deferred costs and taxes:		
Unrealized losses on securities:		
Net unrealized holding losses arising during period	(15,503)	(13,326)
Reclassification adjustment for net gains included in net earnings	(574)	(2,697)
Amortization of net unrealized gains (losses) related to transferred securities	(30)	34
Net unrealized losses on securities	(16,107)	(15,989)
Foreign currency translation adjustments	39	(99)
Benefit plans:		
Amortization of net prior service cost and net gain	375	618
Other comprehensive loss	(15,693)	(15,470)
Comprehensive income	$ 2,449	6,381

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Six Months Ended June 30, 2008 and 2007
(Unaudited)
(In thousands)

	2008	2007
Net earnings	$ 32,588	40,523
Other comprehensive income (loss), net of effects of deferred costs and taxes:		
Unrealized losses on securities:		
Net unrealized holding losses arising during period	(15,095)	(8,605)
Reclassification adjustment for net gains included in net earnings	(610)	(2,864)
Amortization of net unrealized gains (losses) related to transferred securities	(14)	54
Net unrealized losses on securities	(15,719)	(11,415)
Foreign currency translation adjustments	(142)	(186)
Benefit plans:		
Amortization of net prior service cost and net gain	684	618
Other comprehensive loss	(15,177)	(10,983)
Comprehensive income	$ 17,411	29,540

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2008 and 2007
(Unaudited)
(In thousands)

	2008	2007
Common stock:		
Balance at beginning of year	$ 3,622	3,621
Shares exercised under stock option plan	4	1
Balance at end of period	3,626	3,622
Additional paid-in capital:		
Balance at beginning of year	36,236	36,110
Shares exercised under the stock option plan	444	126
Balance at end of period	36,680	36,236
Accumulated other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Balance at beginning of year	1,184	3,148
Change in unrealized gains (losses) during period	(15,719)	(11,415)
Balance at end of period	(14,535)	(8,267)
Foreign currency translation adjustments:		
Balance at beginning of year	3,078	3,122
Change in translation adjustments during period	(142)	(186)
Balance at end of period	2,936	2,936
Benefit plan liability adjustment:		
Balance at beginning of year	(11,327)	(10,001)
Amortization of net prior service cost and net gain	684	618
Balance at end of period	(10,643)	(9,383)
Accumulated other comprehensive loss at end of period	(22,242)	(14,714)
Retained earnings:		
Balance at beginning of year	978,892	896,984
Cumulative effect of change in accounting principle, net of tax	-	(2,195)
Net earnings	32,588	40,523
Balance at end of period	1,011,480	935,312

Total stockholders' equity	$ 1,029,544	960,456

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2008 and 2007
(Unaudited)
(In thousands)

	2008	2007
Cash flows from operating activities:		
Net earnings	$ 32,588	40,523
Adjustments to reconcile net earnings to net cash		
from operating activities:		
Universal life and annuity contract interest	60,172	104,818
Surrender charges and other policy revenues	(19,667)	(17,630)
Realized losses (gains) on investments	311	(4,406)
Accrual and amortization of investment income	(2,487)	(2,641)
Depreciation and amortization	495	707
Decrease (increase) in value of derivatives	21,289	(78)
Decrease (increase) in deferred policy acquisition and		
sales inducement costs	3,306	(4,601)
Decrease (increase) in accrued investment income	172	(59)
(Increase) decrease in other assets	(5,273)	1,157
(Decrease) increase in liabilities for future policy benefits	(601)	727
Increase in other policyholder liabilities	3,421	11,068
Decrease (increase) in Federal income tax liability	8,401	(2,365)
Decrease in other liabilities	(4,115)	(10,946)
Other	359	1,802
Net cash provided by operating activities	98,371	118,076
Cash flows from investing activities:		
Proceeds from sales of:		
Securities held to maturity	-	5,175
Securities available for sale	999	11,562
Other investments	443	12,766
Proceeds from maturities and redemptions of:		
Securities held to maturity	355,100	73,694
Securities available for sale	140,458	186,519
Derivatives	22,143	8,570
Purchases of:		
Securities held to maturity	(379,575)	(182,115)
Securities available for sale	(167,134)	(174,781)
Other investments	(26,292)	(24,947)
Principal payments on mortgage loans	10,200	15,275
Cost of mortgage loans acquired	(1,962)	(15,932)
Decrease in policy loans	(1,895)	(1,446)
Other	(3,899)	(1,872)

Net cash used in investing activities	(47,624)	(87,532)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Six Months Ended June 30, 2008 and 2007
(Unaudited)
(In thousands)

	2008	2007
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	$ 238,296	247,944
Return of account balances on universal life and annuity contracts	(300,961)	(299,755)
Issuance of common stock under stock option plan	448	127
Net cash used in financing activities	(62,217)	(51,684)
Effect of foreign exchange	(351)	(195)
Net decrease in cash and short-term investments	(11,821)	(21,335)
Cash and short-term investments at beginning of period	45,206	49,901
Cash and short-term investments at end of period	$ 33,385	28,566

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	2008	2007
Cash paid during the period for:		
Interest	$ 20	20
Income taxes	8,178	19,097

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2008, and the results of its operations and its cash flows for the three months and six months ended June 30, 2008 and 2007. The results of operations for the three months and six months ended June 30, 2008 and 2007 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission (“SEC”) internet site at www.sec.gov.

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

(2) CHANGES IN ACCOUNTING PRINCIPLES

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 was 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 FASB 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 had an impact related to the adoption of SOP 05-1 for contracts which annuitized and for reinstatements of contracts. The unamortized deferred acquisition costs and deferred sales inducement assets have to be written-off at the time of annuitization and can not be continued related to reinstatements. SOP 05-1 resulted in changes in assumptions relative to estimated gross profits which affected unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of 2007. 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

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In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company adopted SFAS 157 effective January 1, 2008, and the adoption did not have an impact on the Company's consolidated financial statements. See Note 10 for additional disclosures concerning fair value measurement.

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.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. The Company adopted SFAS 159 effective January 1, 2008, and the adoption did not have an impact on the consolidated financial statements as no items were elected for measurement at fair value upon initial adoption.

In December 2007, the FASB issued 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 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 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. The adoption of SFAS 141(R) is not expected to have a material impact on the Company's consolidated financial statements.

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 their 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.

(3) STOCKHOLDERS' EQUITY

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 Company paid no cash dividends on common stock during the six months ended June 30, 2008 and 2007.

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(4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average basic common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options in the denominator.

		Three Months Ended June 30,			
		2008		2007	
		Class A	Class B	Class A	Class B
		(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:					
Net income	$	18,142		21,851	
Dividends – Class A shares		-		-	
Dividends – Class B shares		-		-	
Undistributed income	$	18,142		21,851	
Allocation of net income:					
Dividends	$	-	-	-	-
Allocation of undistributed income		17,627	515	21,231	620
Net income	$	17,627	515	21,231	620
Denominator:					
Basic earnings per share - weighted-average shares		3,426	200	3,422	200
Effect of dilutive stock options		27	-	45	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions		3,453	200	3,467	200
Basic Earnings Per Share	$	5.15	2.57	6.20	3.10
Diluted Earnings Per Share	$	5.10	2.57	6.12	3.10

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	Six Months Ended June 30,			
	2008		2007	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	$ 32,588		40,523	
Dividends – Class A shares	-		-	
Dividends – Class B shares	-		-	
Undistributed income	$ 32,588		40,523	
Allocation of net income:				
Dividends	$ -	-	-	-
Allocation of undistributed income	31,664	924	39,372	1,151
Net income	$ 31,664	924	39,372	1,151
Denominator:				
Basic earnings per share - weighted-average shares	3,424	200	3,422	200
Effect of dilutive stock options	26	-	46	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,450	200	3,468	200
Basic Earnings Per Share	$ 9.25	4.62	11.51	5.75
Diluted Earnings Per Share	$ 9.18	4.62	11.35	5.75

(5) 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. Using estimated assumptions, the cumulative estimated minimum required contribution for the next five years is $2.1 million at which time the Plan is expected to be fully funded. Future pension expense is projected to be minimal.

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The following summarizes the components of net periodic benefit cost.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Service cost	$ (180)	187	-	360
Interest cost	246	288	518	543
Expected return on plan assets	(295)	(313)	(570)	(550)
Amortization of prior service cost	1	1	2	2
Amortization of net loss	42	72	122	160
Net periodic benefit cost	$ (186)	235	72	515

The Company expects to contribute $1.1 million to the plan in 2008. As of June 30, 2008, the Company has contributed $0.3 million to the plan.

The Company also sponsors a non-qualified defined benefit plan primarily for senior officers. The plan provides benefits based on the participants' years of service and compensation. The 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"). 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 the 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 is 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.

The following summarizes the components of net periodic benefit costs for these non-qualified plans.

Three Months Ended June 30,		Six Months Ended June 30,	
2008	2007	2008	2007
(In thousands)			

Service cost	$	100	(21)	293	386
Interest cost		354	304	595	481
Amortization of prior service cost		260	260	520	520
Amortization of net loss		252	156	353	202
Net periodic benefit cost	$	966	699	1,761	1,589

The Company expects to contribute $1.7 million to these plans in 2008. As of June 30, 2008, the Company has contributed $0.7 million to the plans.

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(B) Defined Benefit Postretirement Plans

The Company sponsors two healthcare plans to provide postretirement benefits to certain fully-vested individuals. The following summarizes the components of net periodic benefit costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Interest cost	$ 32	41	67	70
Amortization of prior service cost	26	26	52	52
Amortization of net loss	(4)	15	3	15
Net periodic benefit cost	$ 54	82	122	137

As previously disclosed in its financial statements for the year ended December 31, 2007, the Company expects to contribute minimal amounts to the plan in 2008.

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(6) SEGMENT AND OTHER OPERATING 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. These segments are organized based on product types and geographic marketing areas. A summary of segment information as of and for the periods ended June 30, 2008 and 2007 is provided below.

Selected Segment Information.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2008:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$ 63,709	213,085	512,052	-	788,846
Total segment assets	401,193	823,498	5,428,195	131,362	6,784,248
Future policy benefits	319,676	579,006	4,659,100	-	5,557,782
Other policyholder liabilities	10,838	12,261	100,722	-	123,821
Three Months Ended June 30, 2008:					
Condensed Income Statements:					
Premiums and contract revenues	$ 6,691	24,741	6,785	-	38,217
Net investment income	5,030	5,005	59,006	3,237	72,278
Other income	4	13	85	3,051	3,153
Total revenues	11,725	29,759	65,876	6,288	113,648
Life and other policy benefits	2,814	4,286	555	-	7,655
Amortization of deferred policy acquisition costs	2,068	9,610	18,585	-	30,263
Universal life and annuity contract interest	2,288	4,586	26,681	-	33,555
Other operating expenses	3,049	4,254	4,489	2,835	14,627
Federal income taxes	508	2,354	5,210	1,161	9,233
Total expenses	10,727	25,090	55,520	3,996	95,333
Segment earnings	$ 998	4,669	10,356	2,292	18,315

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	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
Six Months Ended June 30, 2008:					
Condensed Income Statements:					
Premiums and contract revenues	$ 13,310	48,226	12,793	-	74,329
Net investment income	10,191	8,044	109,303	4,170	131,708
Other income	10	25	123	6,134	6,292
Total revenues	23,511	56,295	122,219	10,304	212,329
Life and other policy benefits	7,019	9,599	1,493	-	18,111
Amortization of deferred policy acquisition costs	4,355	18,401	33,755	-	56,511
Universal life and annuity contract interest	4,643	7,280	48,249	-	60,172
Other operating expenses	6,023	8,126	8,295	5,613	28,057
Federal income taxes	496	4,348	10,262	1,582	16,688
Total expenses	22,536	47,754	102,054	7,195	179,539
Segment earnings	$ 975	8,541	20,165	3,109	32,790

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Selected Segment Information.

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
June 30, 2007:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$ 54,622	185,507	514,508	-	754,637
Total segment assets	387,613	748,423	5,500,959	104,690	6,741,685
Future policy benefits	317,127	526,618	4,730,324	-	5,574,069
Other policyholder liabilities	11,517	21,093	90,907	-	123,517
Three Months Ended June 30, 2007:					
Condensed Income Statements:					
Premiums and contract revenues	$ 6,314	20,564	6,361	-	33,239
Net investment income	4,515	8,853	91,677	2,887	107,932
Other income	13	42	138	3,166	3,359
Total revenues	10,842	29,459	98,176	6,053	144,530
Life and other policy benefits	2,617	7,300	520	-	10,437
Amortization of deferred policy acquisition costs	2,324	7,817	15,496	-	25,637
Universal life and annuity contract interest	2,312	7,844	57,229	-	67,385
Other operating expenses	2,119	5,838	5,599	2,811	16,367
Federal income taxes (benefit)	509	(112)	4,318	845	5,560
Total expenses	9,881	28,687	83,162	3,656	125,386
Segment earnings	$ 961	772	15,014	2,397	19,144

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Six Months Ended June 30, 2007:					
Condensed Income Statements:					
Premiums and contract revenues	$ 12,647	42,235	11,886	-	66,768
Net investment income	9,193	14,615	157,430	3,720	184,958
Other income	27	87	366	6,195	6,675
Total revenues	21,867	56,937	169,682	9,915	258,401
Life and other policy benefits	8,758	10,977	1,676	-	21,411
Amortization of deferred policy acquisition costs	4,188	15,980	29,254	-	49,422
Universal life and annuity contract interest	4,632	13,096	87,090	-	104,818
Other operating expenses	4,831	10,148	10,080	5,424	30,483
Federal income taxes (benefit)	(151)	1,883	11,621	1,255	14,608
Total expenses	22,258	52,084	139,721	6,679	220,742
Segment earnings (losses)	$ (391)	4,853	29,961	3,236	37,659

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Premiums and Other Revenue:				
Premiums and contract revenues	$ 38,217	33,239	74,329	66,768
Net investment income	72,278	107,932	131,708	184,958
Other income	3,153	3,359	6,292	6,675
Realized gains (losses) on investments	(267)	4,165	(311)	4,406
Total consolidated premiums and other revenue	$ 113,381	148,695	212,018	262,807

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Federal Income Taxes:				
Total segment Federal income taxes	$ 9,233	5,560	16,688	14,608
Taxes on realized (losses) gains on investments	(94)	1,458	(109)	1,542
Total consolidated Federal income taxes	$ 9,139	7,018	16,579	16,150

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Net Earnings:				
Total segment earnings	$ 18,315	19,144	32,790	37,659
Realized (losses) gains on investments, net of taxes	(173)	2,707	(202)	2,864
Total consolidated net earnings	$ 18,142	21,851	32,588	40,523

	June 30,	
	2008	2007
	(In thousands)	
Assets:		
Total segment assets	$ 6,784,248	6,741,685
Other unallocated assets	42,082	22,708
Total consolidated assets	$ 6,826,330	6,764,393

(7) SHARE-BASED PAYMENTS

The Company has a stock and incentive plan ("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; (4) incentive awards; and (5) performance awards. The Plan began on April 21, 1995, and was to terminate on April 20, 2005, unless terminated earlier by the Board of Directors. The Plan 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 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.

All of the employees of the Company and its subsidiaries are eligible to participate in the Plan. In addition, directors of the Company, other than Compensation and Stock Option Committee members, are eligible for restricted stock awards, incentive awards, and performance awards. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' stock options vest 20% annually following one full year of service to the Company from the date of grant. The officers' stock options vest 20% annually following three full years of service to the Company from the date of grant. Options issued expire after ten years. During the second quarter of 2008, 28,268 options were awarded to Company officers at a market value price of $255.13 on the date of award, and 9,000 options were awarded to Company Directors at a market value price of $208.05 on that respective date of award. No awards were issued during the year 2007.

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In 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. Accordingly, the Company is using the current fair value method to measure compensation cost. 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	-	(21,460)	102.50
Forfeited	1,000	(1,000)	150.00
Granted April 18, 2008	(28,268)	28,268	255.13
2008 Plan addition	300,000	-	-
Granted June 20, 2008	(9,000)	9,000	208.05
Balance at June 30, 2008	291,400	109,792	$ 172.48

The total intrinsic value of options exercised was $2.3 million and $3.3 million for the six months ended June 30, 2008 and 2007, respectively. The total share-based liabilities paid were $2.0 million for the six months ended June 30, 2008. The total fair value of shares vested during the six months ended June 30, 2008 and 2007 was $2.0 million and $3.0 million, respectively.

The following table summarizes information about stock options outstanding at June 30, 2008.

	Options Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
$ 92.13	12,024	2.8 years	12,024
95.00	6,000	3.0 years	6,000
150.00	54,500	5.8 years	23,600
255.13	28,268	9.8 years	-
208.05	9,000	10.0 years	-
Totals	109,792		41,624
Aggregate intrinsic value (in thousands)	$ 6,088		$ 3,877

The aggregate intrinsic value in the table above is based on the closing stock price of $218.50 per share on June 30, 2008.

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In estimating the fair value of the options outstanding at June 30, 2008 and 2007, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	2008	2007
Expected term of options	1 to 7 years	2 to 6 years
Expected volatility:		
Range	21.89% to 42.57%	15.54% to 23.27%
Weighted average	27.33%	17.61%
Expected dividends	-	-
Risk-free rate:		
Range	2.31% to 3.92%	4.93% to 5.05%
Weighted average	3.07%	4.99%

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

The pre-tax compensation cost recognized in the financial statements related to the Plan was $0.7 million and $2.6 million for the six months ended June 30, 2008 and 2007, respectively. The related tax expense recognized was $0.2 million and $0.9 million for the six months ended June 30, 2008 and 2007, respectively.

As of June 30, 2008, the total compensation cost related to nonvested options not yet recognized was $3.7 million. This amount is expected to be recognized over a weighted-average period of 2.5 years. The Company recognizes compensation cost over the graded vesting periods.

For the six months ended June 30, 2008 and 2007, the total cash received from the exercise of options under the Plan was $0.4 million and $0.1 million, respectively.

(8) FEDERAL INCOME TAXES

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 the second quarter of 2007 or any prior period financial statements.

(9) COMMITMENTS AND CONTINGENCIES

The Company is a defendant in three class action lawsuits. 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 National Western Life. Management believes that the Company has good and meritorious defenses and intends to continue to vigorously defend itself against these claims. A second class action lawsuit is in discovery with no class certification motion pending. The third class action lawsuit was certified as a class by the trial court, but ultimately reversed by the Texas Supreme Court. Thereupon the plaintiff filed a new motion for class certification which was denied by the trial court. The Plaintiff filed an appeal with the Court of Appeals which, upon joint motion of the parties, remanded the case to the District Court for entry of an Agreed Order of Dismissal with prejudice, which the District Court entered and closed the case.

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.

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On June 28, 2008, the SEC published for public comment until September 10, 2008, proposed Rule 151A which would require fixed-index annuity products to be regulated by the SEC. The proposed rule indicates there would be 12 months between publication and the effective date of any final rule. Under this proposed rule, fixed-index annuities would be considered a type of security and all agents selling these products would have to be registered representatives affiliated with a licensed broker dealer. While there is uncertainty regarding the outcome of this proposed rule, it is possible the Company could have a more regulated environment in the future for its fixed-index annuity products with a likely increase in costs and possible decline in sales due to product redesign requirements.

(10) FAIR VALUE MEASUREMENTS

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). SFAS 157 establishes a framework for measuring fair value that includes a hierarchy used to classify inputs used in measuring fair value. The hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels which are either observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect an entity's view of market assumptions in the absence of observable market information. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy defined by SFAS 157 are 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.

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.

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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:

Description	Total	Level 1	Level 2	Level 3
		June 30, 2008 (In thousands)		
Debt securities, available for sale	$ 1,865,705	-	1,852,886	12,819
Equity securities, available for sale	18,737	259	11,288	7,190
Derivatives	6,880	-	6,880	-
Total assets	$ 1,891,322	259	1,871,054	20,009
Policyholder account balances (a)	$ 13,607	-	13,607	-
Other liabilities (b)	6,303	-	-	6,303
Total liabilities	$ 19,910	-	13,607	6,303

(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.

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 Three Months Ended June 30, 2008			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
		(In thousands)		
Beginning balance, April 1, 2008	$ 1,616	7,190	8,806	6,387
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	617
Included in other comprehensive loss	(199)	-	(199)	-
Purchases, sales, issuances and settlements, net	(522)	-	(522)	(701)
Transfers into (out of) Level 3	11,924	-	11,924	-
Ending balance, June 30, 2008	$ 12,819	7,190	20,009	6,303
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 June 30, 2008	$ -	-	-	617

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		For the Six Months Ended June 30, 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		-	-	-	559
Included in other comprehensive loss		(199)	43	(156)	-
Purchases, sales, issuances and settlements, net		(524)	-	(524)	(1,968)
Transfers into (out of) Level 3		11,924	-	11,924	-
Ending balance, June 30, 2008	$	12,819	7,190	20,009	6,303
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 June 30, 2008	$	-	-	-	559

Realized gains (losses) on Level 3 assets and liabilities are reported in the consolidated statements of earnings as net investment gains (losses) while unrealized gain (losses) 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.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of National Western Life Insurance Company or its subsidiaries are or may be viewed as forward-looking. Although the Company has taken appropriate care in developing any such information, forward-looking information involves risks and uncertainties that could significantly impact actual results. These risks and uncertainties include, but are not limited to, matters described in the Company’s SEC filings such as exposure to market risks, anticipated cash flows or operating performance, future capital needs, and statutory or regulatory related issues. However, National Western, as a matter of policy, does not make any specific projections as to future earnings, nor does it endorse any projections regarding future performance that may be made by others. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments. Also, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

OVERVIEW

Insurance Operations - Domestic

The Company is currently licensed to do business in all states except for New York. Products marketed are annuities, universal life insurance, fixed-indexed annuities and fixed-indexed universal life, and traditional life insurance, which include both term and whole life products. The Company’s domestic sales have historically been more heavily weighted toward annuity products, which include single and flexible premium deferred annuities, single premium immediate annuities, and fixed-indexed annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At June 30, 2008, the Company maintained approximately 118,360 annuity policies in force.

National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company currently has approximately 4,600 independent agents contracted. Roughly 31% of these contracted agents have submitted policy applications to the Company in the past twelve months.

Insurance Operations - International

The Company's international operations focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, Eastern Europe, Asia and the Pacific Rim. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At June 30, 2008, the Company had approximately 74,150 international life insurance policies in force representing approximately $15.4 billion in face amount of coverage.

International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 3,990 independent international consultants and brokers currently contracted, 58% of which have submitted policy applications to the Company in the past twelve months.

There are some inherent risks of accepting international applications which are not present within the domestic market that are reduced substantially by the Company in several ways. As previously described, the Company accepts applications from foreign nationals in upper socioeconomic classes who have substantial financial resources. This targeted customer base coupled with the Company's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The Company minimizes exposure to foreign currency risks by requiring payment of premiums, claims and other benefits almost entirely in United States dollars. The Company's over forty years of experience with the international products and its longstanding independent consultant and broker-agents relationships further serve to minimize risks.

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SALES

Life Insurance

The following table sets forth information regarding the Company's life insurance sales activity as measured by annualized first year premiums. While the figures shown below are in accordance with industry practice and represent the amount of new business sold during the periods indicated, they are considered a non-GAAP financial measure. The Company believes sales are a measure of distribution productivity and are a leading indicator of future revenue trends. However, revenues are driven by sales in prior periods as well as in the current period and therefore, a reconciliation of sales to revenues is not meaningful or determinable.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
International:				
Universal life	$ 2,049	2,507	3,642	4,151
Traditional life	1,379	1,765	2,733	3,492
Equity-indexed life	5,689	5,052	11,433	9,779
	9,117	9,324	17,808	17,422
Domestic:				
Universal life	2,033	959	2,932	1,332
Traditional life	33	53	71	128
Equity-indexed life	892	1,433	3,224	2,855
	2,958	2,445	6,227	4,315
Totals	$ 12,075	11,769	24,035	21,737

Life insurance sales as measured by annualized first year premiums increased 3% in the second quarter of 2008 as compared to the second quarter of 2007 and increased 11% for the first six months of 2008 versus 2007. Both of the Company's life lines of business, international and domestic, posted increases for the first six months of the year with international sales up 2% and domestic sales 44% higher than the amounts reported in 2007.

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Over the past three or four years management has placed considerable emphasis on building domestic life insurance sales as a strategic focus for future growth. This focus was also in response to comments from outside rating agencies who expressed a preference for a greater proportion of overall Company earnings to be derived from the life insurance line of business. Until that time, domestic operations had generally focused more heavily on annuity sales than on life insurance sales. The Company spent the greater part of 2003 and 2004 revamping its domestic life operations by changing the way it contracts distribution for life business, eliminating products and distribution that have not contributed significantly to earnings, and creating new and competitive products. A single premium universal life ("SPUL") product was launched at the end of 2003 beginning a diversification of the Company's product portfolio away from smaller dollar face amount policies. The Company released its first fixed equity-indexed universal life ("EIUL") product for its domestic markets at the end of the third quarter of 2005. This product accounted for 52% of domestic life insurance sales in the first six months of 2008. With the introduction of the EIUL and SPUL products and the discontinued marketing of smaller premium and volume life insurance policies, the Company has attracted new independent distributors with access to customers purchasing larger face amounts of insurance per policy. As a result, the Company has witnessed an increase in the average amount of per policy coverage purchased in its domestic markets as shown in the following table:

	Average New Policy Face Amount		
	Domestic		International
Year ended December 31, 2003	$	76,100	219,600
Year ended December 31, 2004		101,700	234,500
Year ended December 31, 2005		137,900	245,900
Year ended December 31, 2006		315,800	254,700
Year ended December 31, 2007		416,800	251,000
Six months ended June 30, 2008		495,300	262,500

The Company's international life business consists of applications submitted from residents in various regions outside of the United States, the volume of which typically varies based upon changes in the socioeconomic climates of these regions. Historically, the Company has experienced a simultaneous combination of rising and declining sales in various countries; however, the appeal of the Company's dollar-denominated life insurance products overcomes many of the local and national difficulties. Applications submitted from residents of Latin America and the Pacific Rim perennially have comprised the majority of the Company's international life insurance sales. Over the past few years, effort has been directed toward the sale of a traditional endowment form of life insurance product for residents of Eastern European and the Commonwealth of Independent States (former Soviet Union). More recently, the Company's universal life product offerings have been made available to residents of these countries.

	Six Months Ended June 30,	
	2008	2007
Percentage of International Sales:		
Latin America	65.9%	63.3%
Pacific Rim	20.9	14.6
Eastern Europe	13.2	22.1
Totals	100.0%	100.0%

Year-to-date, the Company has recorded sales to residents outside of the United States in over thirty different countries with Brazil (28%), Taiwan (21%), and Colombia (9%) making up the largest markets.

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The table below sets forth information regarding the Company's life insurance in force for each date presented.

	Insurance In Force as of June 30,		
		2008	2007
	($ In thousands)		
Universal life:			
Number of policies		71,850	74,790
Face amounts	$	7,977,850	8,015,070
Traditional life:			
Number of policies		50,450	52,750
Face amounts	$	1,931,080	1,784,330
Equity-indexed life:			
Number of policies		27,230	21,740
Face amounts	$	6,265,720	4,804,990
Rider face amounts	$	2,142,040	1,876,600
Total life insurance:			
Number of policies		149,530	149,280
Face amounts	$	18,316,690	16,480,990

Annuities

The following table sets forth information regarding the Company's annuity sales activity as measured by single and annualized first year premiums. Similar to life insurance sales, these figures are considered a non-GAAP financial measure but are shown in accordance with industry practice and depict the Company's sales productivity.

		Three Months Ended June 30,		Six Months Ended June 30,	
		2008	2007	2008	2007
		(In thousands)			
Fixed-indexed annuities	$	83,979	85,584	156,987	154,268
Other deferred annuities		18,734	30,232	44,556	57,889
Immediate annuities		878	770	2,606	2,492
Totals	$	103,591	116,586	204,149	214,649

Annuity sales for the second quarter of 2008 were 11% lower than the comparable period in 2007, and were 5% lower in the first six months of 2008 versus 2007. Since 2003, when the Company achieved nearly $1.2 billion in sales, annuity sales have trended lower due to a combination of declining interest rates, investors returning to alternative investment vehicles and the Company managing its targeted levels of risk and statutory capital and surplus. During the past several years the interest rate yield curve has either been inverted (shorter term rates higher than longer term rates) or relatively flat. In such an interest rate environment, consumers tend toward short term investment vehicles such as bank certificates of deposits rather than longer term choices which include fixed rate annuities.

The Company's mix of annuity sales has shifted the past few years. With a stronger performance in the equity market, sales of fixed-indexed annuity products have been more prevalent since 2004 and have generally experienced more popularity with consumers. Over the past several years, sales of fixed-indexed products have consistently accounted for more than one-half of all annuity sales and were 77% of total annuity sales during the first six months of 2008. For all fixed-indexed products, the Company purchases over the counter options to hedge the equity return feature. The options are purchased relative to the issuance of the annuity contracts in such a manner to minimize timing risk. Generally, the index return during the indexing period (if the underlying index increases) becomes a component in a formula (set forth in the annuity), the result of which is credited as interest to contract holders electing the index formula crediting method at the beginning of the indexing period. The formula result can never be less than zero with these products. The Company does not deliberately mismatch or under hedge for the equity feature of the products.

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The level of annuity sales volume the past several years has required a greater level of asset/liability analysis. The Company monitors its asset/liability matching within the self-constraints of desired capital levels and risk tolerance. Despite the amounts of new business, the company's capital level remains substantially above industry averages and regulator targets.

The following table sets forth information regarding annuities in force for each date presented.

	Annuities In Force as of June 30,		
		2008	2007
	($ In thousands)		
Fixed-indexed annuities			
Number of policies		32,630	31,590
GAAP annuity reserves	$	1,978,350	1,896,860
Other deferred annuities			
Number of policies		71,870	77,280
GAAP annuity reserves	$	2,401,570	2,578,700
Immediate annuities			
Number of policies		13,860	13,220
GAAP annuity reserves	$	276,360	251,790
Total annuities			
Number of policies		118,360	122,090
GAAP annuity reserves	$	4,656,280	4,727,350

Critical Accounting Estimates

Accounting policies discussed below are those considered critical to an understanding of the Company's financial statements.

Impairment of Investment Securities. The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the financial conditions and near-term prospects of the issuer, (c) whether the debtor is current on contractually obligated principal and interest payments, and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous estimate, then an other-than-temporary impairment charge is recognized. When a security is deemed to be impaired, a charge is recorded as net realized losses equal to the difference between the fair value and amortized cost basis of the security. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. Under U.S. generally accepted accounting principles (GAAP), the Company is not permitted to increase the basis of impaired securities for subsequent recoveries in value.

Deferred Acquisition Costs ("DAC"). The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are primarily associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company regularly evaluates to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as "unlocking"), the Company would record a charge or credit to bring its DAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

DAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DAC balance and if the DAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability. See the discussion of the adoption of Statement of Position ("SOP") 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts on page 12 of this report.

Future Policy Benefits. Because of the long-term nature of insurance contracts, the Company is liable for policy benefit payments many years into the future. The liability for future policy benefits represents estimates of the present value of the Company's expected benefit payments, net of the related present value of future net premium collections. For traditional life insurance contracts, this is determined by standard actuarial procedures, using assumptions as to mortality (life expectancy), morbidity (health expectancy), persistency, and interest rates, which are based on the Company's experience with similar products. The assumptions used are those considered to be appropriate at the time the policies are issued. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. For universal life and annuity products, the Company's liability is the amount of the contract's account balance. Account balances are also subject to minimum liability calculations as a result of minimum guaranteed interest rates in the policies. While management and Company actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company's ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts.

Revenue Recognition. Premium income for the Company's traditional life insurance contracts is generally recognized as the premium becomes due from policyholders. For annuity and universal life contracts, the amounts collected from policyholders are considered deposits and are not included in revenue. For these contracts, fee income consists of policy charges for policy administration, cost of insurance charges and surrender charges assessed against policyholders' account balances which are recognized in the period the services are provided.

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Investment activities of the Company are integral to its insurance operations. Since life insurance benefits may not be paid until many years into the future, the accumulation of cash flows from premium receipts are invested with income reported as revenue when earned. Anticipated yields on investments are reflected in premium rates, contract liabilities, and other product contract features. These anticipated yields are implied in the interest required on the Company's net insurance liabilities (future policy benefits less deferred acquisition costs) and contractual interest obligations in its insurance and annuity products. The Company benefits to the extent actual net investment income exceeds the required interest on net insurance liabilities and manages the rates it credits on its products to maintain the targeted excess or "spread" of investment earnings over interest credited. The Company will continue to be required to provide for future contractual obligations in the event of a decline in investment yield. For more information concerning revenue recognition, investment accounting, and interest sensitivity, please refer to Note 1, Summary of Significant Accounting Policies, and Note 3, Investments, in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, and the discussions under Investments in Item 2 of this report.

Pension Plans and Other Postretirement Benefits. The Company sponsors a qualified defined benefit pension plan, which was frozen effective December 31, 2007, covering substantially all employees and three nonqualified defined benefit plans covering certain senior officers. In addition, the Company also has postretirement health care benefits for certain senior officers. In accordance with prescribed accounting standards, the Company annually reviews plan assumptions.

The Company annually reviews its pension benefit plan assumptions, which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. 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 plans and the various classes of the invested funds, based on the input of the plan's investment advisors and consulting actuary and the plan's historic rate of return. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants immediately became 100% vested in their accrued benefits as of that date.

Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, health care trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Health care trend rates involve assumptions about the annual rate(s) of change in the cost of health care benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of health care inflation, changes in utilization, technological advances and changes in health status of the participants. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

Share-Based Payments. Liability awards under a share-based payment arrangement have been measured based on the award's fair value at the reporting date. The Black-Scholes valuation method has been used to estimate the fair value of the options. This fair value calculation of the options includes assumptions relative to the following:

Ÿ exercise price
Ÿ expected term based on contractual term and perceived future behavior relative to exercise
Ÿ current price
Ÿ expected volatility

- risk-free interest rates
- expected dividends

These assumptions are continually reviewed by the Company and adjustments may be made based upon current facts and circumstances.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above but nonetheless important to an understanding of the financial statements, are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

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RESULTS OF OPERATIONS

The Company's consolidated financial statements are prepared in accordance with GAAP. In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivatives and realized investment gains and losses from operating revenues and earnings. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. 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 derivatives and 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. Therefore, in the following sections discussing consolidated operations and segment operations, appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the consolidated financial statements.

Consolidated Operations

Revenues. The following details Company revenues.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Traditional life and annuity premiums	$ 4,624	4,586	8,518	9,319
Universal life and annuity contract revenues	33,593	28,653	65,811	57,449
Net investment income (excluding derivatives)	86,034	84,653	170,021	166,274
Other income	3,153	3,359	6,292	6,675
Operating revenues	127,404	121,251	250,642	239,717
Derivative income (loss)	(13,756)	23,279	(38,313)	18,684
Realized gains (losses) on investments	(267)	4,165	(311)	4,406
Total revenues	$ 113,381	148,695	212,018	262,807

Traditional life and annuity premiums - Traditional life and annuity premiums increased 0.8% and decreased 8.6% for the three and six months ended June 30, 2008 compared to the same periods in 2007. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. These are products that the Company has de-emphasized in favor of universal life products, particularly equity-indexed universal life products.

Universal life and annuity contract revenues - Revenues for universal life and annuity contract revenues increased 17.2% and 14.6% for the three and six months ended June 30, 2008 compared to the same periods in 2007, and consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances. Revenues in the form of cost of insurance charges were $20.4 million and $40.4 million for the three and six months ended June 30, 2008 compared to $18.2 million and $36.1 million for the three and six months ended June 30, 2007, reflecting the growing block of life insurance in force. Surrender charges assessed against policyholder account balances upon withdrawal increased to $9.5 million and $18.6 million for the three and six months ended June 30, 2008 versus $8.3 million and $15.9 million for the three and six months ended June 30, 2007.

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Net investment income - A detail of net investment income is provided below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Gross investment income:				
Debt securities	$ 80,467	77,259	159,160	153,575
Mortgage loans	1,941	2,126	3,900	4,334
Policy loans	1,534	1,471	3,054	3,116
Short-term investments	394	1,776	1,558	3,662
Other invested assets	2,349	2,774	3,657	3,009
Total investment income	86,685	85,406	171,329	167,696
Investment expenses	651	753	1,308	1,422
Net investment income (excluding derivatives)	86,034	84,653	170,021	166,274
Derivative income (loss)	(13,756)	23,279	(38,313)	18,684