NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
August 10, 2009

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, 2009

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 5, 2009, 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, 2009	December 31, 2008
Investments:			
Securities held to maturity, at amortized cost (fair value: $4,015,880 and $3,727,353)	$	3,986,365	3,831,417
Securities available for sale, at fair value (cost: $1,897,918 and $1,904,053)		1,855,738	1,745,266
Mortgage loans, net of allowance for possible losses ($3,577 and $4,587)		93,016	90,733
Policy loans		77,928	79,277
Derivatives, index options		27,018	11,920
Other long-term investments		29,651	14,168
Total investments		6,069,716	5,772,781
Cash and short-term investments		54,850	67,796
Deferred policy acquisition costs		658,921	701,984
Deferred sales inducements		121,202	120,955
Accrued investment income		67,200	64,872
Federal income tax receivable		-	1,820
Other assets		64,862	56,272
	$	7,036,751	6,786,480

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, 2009	December 31, 2008
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	$ 136,470	137,530
Universal life and annuity contracts	5,567,547	5,424,968
Other policyholder liabilities	134,875	131,963
Federal income tax liability:		
Current	8,131	-
Deferred	45,365	26,506
Other liabilities	81,214	79,300
Total liabilities	5,973,602	5,800,267
COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,425,966 and 3,425,454 issued and outstanding in 2009 and 2008	3,426	3,426
Class B - $1 par value; 200,000 shares authorized, issued, and outstanding in 2009 and 2008	200	200
Additional paid-in capital	36,680	36,680
Accumulated other comprehensive loss	(22,799)	(65,358)
Retained earnings	1,045,642	1,011,265
Total stockholders' equity	1,063,149	986,213
	$ 7,036,751	6,786,480

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, 2009 and 2008
(Unaudited)
(In thousands, except per share amounts)

		2009	2008
Premiums and other revenue:			
Traditional life and annuity premiums	$	4,389	4,624
Universal life and annuity contract charges		38,862	33,593
Net investment income		93,743	72,278
Other revenues		3,507	3,153
Net realized investment gains (losses):			
Total other-than-temporary impairment (“OTTI”) losses		(1,849)	(1,425)
Portion of OTTI losses recognized in other comprehensive income		1,823	-
Net OTTI losses recognized in earnings		(26)	(1,425)
Other net investment gains		192	1,158
Total net realized investment gains (losses)		166	(267)
Total revenues		140,667	113,381
Benefits and expenses:			
Life and other policy benefits		10,248	7,655
Amortization of deferred policy acquisition costs and deferred sales inducements		28,549	30,263
Universal life and annuity contract interest		57,651	33,555
Other operating expenses		16,631	14,627
Total benefits and expenses		113,079	86,100
Earnings before Federal income taxes		27,588	27,281
Provision (benefit) for Federal income taxes:			
Current		15,141	7,928
Deferred		(6,395)	1,211
Total Federal income taxes		8,746	9,139
Net earnings	$	18,842	18,142
Basic Earnings Per Share:			
Class A	$	5.34	5.15
Class B	$	2.67	2.57
Diluted Earnings Per Share:			
Class A	$	5.34	5.10

Class B	$	2.67	2.57

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, 2009 and 2008
(Unaudited)
(In thousands, except per share amounts)

		2009	2008
Premiums and other revenues:			
Traditional life and annuity premiums	$	8,520	8,518
Universal life and annuity contract charges		77,433	65,811
Net investment income		164,349	131,708
Other revenues		7,101	6,292
Net realized investment gains (losses):			
Total other-than-temporary impairment ("OTTI") losses		(7,130)	(1,450)
Portion of OTTI losses recognized in other comprehensive income		1,823	-
Net OTTI losses recognized in earnings		(5,307)	(1,450)
Other net investment gains		128	1,139
Total net realized investment losses		(5,179)	(311)
Total revenues		252,224	212,018
Benefits and expenses:			
Life and other policy benefits		23,276	18,111
Amortization of deferred policy acquisition costs and deferred sales inducements		56,497	56,511
Universal life and annuity contract interest		92,917	60,172
Other operating expenses		29,344	28,057
Total benefits and expenses		202,034	162,851
Earnings before Federal income taxes		50,190	49,167
Provision (benefit) for Federal income taxes:			
Current		21,005	11,819
Deferred		(4,685)	4,760
Total Federal income taxes		16,320	16,579
Net earnings	$	33,870	32,588
Basic Earnings Per Share:			
Class A	$	9.61	9.25
Class B	$	4.80	4.62
Diluted Earnings Per Share:			
Class A	$	9.60	9.18

Class B	$	4.80	4.62

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, 2009 and 2008
(Unaudited)
(In thousands)

		2009	2008
Net earnings	$	18,842	18,142
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		31,868	(15,503)
Reclassification adjustment for net amounts included in net earnings		171	(574)
Amortization of net unrealized gains related to transferred securities		(12)	(30)
Net unrealized gains (losses) on securities		32,027	(16,107)
Foreign currency translation adjustments		(93)	39
Benefit plans:			
Amortization of net prior service cost and net gain		411	375
Other comprehensive income (loss)		32,345	(15,693)
Comprehensive income	$	51,187	2,449

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, 2009 and 2008
(Unaudited)
(In thousands)

		2009	2008
Net earnings	$	33,870	32,588
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		39,513	(15,095)
Reclassification adjustment for net amounts included in net earnings		2,872	(610)
Amortization of net unrealized gains related to transferred securities		(44)	(14)
Net unrelaized gains (losses) on securities		42,341	(15,719)
Foreign currency translation adjustments		(98)	(142)
Benefit plans:			
Amortization of net prior service cost and net gain		823	684
Other comprehensive income (loss)		43,066	(15,177)
Comprehensive income	$	76,936	17,411

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, 2009 and 2008
(Unaudited)
(In thousands)

	2009	2008
Common stock:		
Balance at beginning of period	$ 3,626	3,622
Shares exercised under stock option plan	-	4
Balance at end of period	3,626	3,626
Additional paid-in capital:		
Balance at beginning of period	36,680	36,236
Shares exercised under the stock option plan	-	444
Balance at end of period	36,680	36,680
Accumulated other comprehensive income (loss):		
Unrealized gains (losses) on non-impaired securities:		
Balance at beginning of period	(53,770)	1,184
Change in unrealized gains (losses) during period	42,902	(15,719)
Balance at end of period	(10,868)	(14,535)
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	-	-
Cumulative effect of change in accounting principle (See Note 3)	(507)	-
Amortization	15	-
Balance at end of period	(492)	-
Unrealized losses on impaired available for sale securities:		
Balance at beginning of period	-	-
Other-than-temporary impairments	(576)	-
Balance at end of period	(576)	-
Foreign currency translation adjustments:		
Balance at beginning of period	2,966	3,078
Change in translation adjustments during period	(98)	(142)
Balance at end of period	2,868	2,936
Benefit plan liability adjustment:		
Balance at beginning of period	(14,554)	(11,327)

Amortization of net prior service cost and net gain	823	684
Balance at end of period	(13,731)	(10,643)
Accumulated other comprehensive loss at end of period	(22,799)	(22,242)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, CONTINUED
For the Six Months Ended June 30, 2009 and 2008
(Unaudited)
(In thousands)

Retained earnings:		
Balance at beginning of period	1,011,265	978,892
Cumulative effect of change in accounting principle, net of tax (See Note 3)	507	-
Net earnings	33,870	32,588
Balance at end of period	1,045,642	1,011,480
Total stockholders' equity	$ 1,063,149	1,029,544

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, 2009 and 2008
(Unaudited)
(In thousands)

		2009	2008
Cash flows from operating activities:			
Net earnings	$	33,870	32,588
Adjustments to reconcile net earnings to net cash			
from operating activities:			
Universal life and annuity contract interest		105,066	69,219
Surrender charges and other policy revenues		(30,471)	(19,667)
Realized losses on investments		5,179	311
Accrual and amortization of investment income		(2,833)	(2,487)
Depreciation and amortization		1,344	495
(Increase) decrease in value of derivatives		(18,344)	21,289
Increase in deferred policy acquisition and			
sales inducement costs		(9,210)	(5,741)
(Increase) decrease in accrued investment income		(2,328)	172
Increase in other assets		(11,822)	(5,273)
Decrease in liabilities for future policy benefits		(1,060)	(601)
Increase in other policyholder liabilities		2,912	3,421
Increase in Federal income tax liability		5,266	8,401
Increase (decrease) in other liabilities		13,642	(4,115)
Other		1,250	359
Net cash provided by operating activities		92,461	98,371
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity		-	-
Securities available for sale		14,770	999
Other investments		671	443
Proceeds from maturities and redemptions of:			
Securities held to maturity		530,236	355,100
Securities available for sale		64,563	140,458
Derivatives, index options		24,405	22,143
Purchases of:			
Securities held to maturity		(668,004)	(379,575)
Securities available for sale		(101,172)	(167,134)
Other investments		(37,603)	(26,292)
Principal payments on mortgage loans		3,921	10,200
Cost of mortgage loans acquired		(6,049)	(1,962)
Decrease in policy loans		1,349	1,895
Other		-	(3,899)

Net cash used in investing activities	(172,913)	(47,624)

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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, 2009 and 2008
(Unaudited)
(In thousands)

	2009	2008
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	$ 363,145	238,296
Return of account balances on universal life and annuity contracts	(295,546)	(300,961)
Issuance of common stock under stock option plan	-	448
Net cash provided by (used in) financing activities	67,599	(62,217)
Effect of foreign exchange	(93)	(351)
Net decrease in cash and short-term investments	(12,946)	(11,821)
Cash and short-term investments at beginning of period	67,796	45,206
Cash and short-term investments at end of period	$ 54,850	33,385
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 20	20
Income taxes	10,748	8,178
Noncash operating activities:		
Net change in deferral of sales inducements	10,124	9,047

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 National Western Life Insurance Company and its subsidiaries (“Company”) as of June 30, 2009, and the results of its operations and its cash flows for the three and six months ended June 30, 2009 and 2008. The results of operations for the six months ended June 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission internet site at www.sec. gov. The condensed consolidated balance sheet at December 31, 2008, has been derived from the audited consolidated financial statements as of that date. Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current year presentation.

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

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires 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 condensed 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.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the 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 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 10 to Consolidated Financial Statements.

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.

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

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 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 No. 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 No. 160 were effective beginning January 1, 2009. The adoption of SFAS No. 160 did not have a material impact on the Company's consolidated financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 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 No. 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 this statement did not have any impact on the Company's consolidated financial condition and results of operations.

In February 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of SFAS No. 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. The adoption of FSP FAS 157-2 did not have a material impact on the Company's consolidated financial condition and results of operations.

On April 9, 2009 the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. As discussed in Note 10, the adoption of FSP FAS 157-4 did not have a material impact on the Company's consolidated financial condition and results of operations.

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. The Company adopted SFAS No. 161 as of January 1, 2009. See Note 11 for disclosures regarding derivative instruments and hedging activities.

In September 2008, the FASB issued FSP 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 No. 133 Accounting for Derivative Instruments and Hedging Activities, 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. The Company adopted FSP FAS 133-1 and FIN 45-4 effective January 1, 2009. The adoption did not have a material effect on the Company's consolidated financial condition and results of operations.

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In December 2008, the FASB issued FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. This FSP requires that information about plan assets be disclosed, on an annual basis, based on the fair value disclosure requirements of SFAS No. 157. The Company would be required to separate plan assets into the three fair value hierarchy levels and provide a rollforward of the changes in fair value of plan assets classified as Level 3. The disclosures about plan assets required by this FSP are effective for fiscal years ending after December 15, 2009, but will have no 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 FSP amends EITF 99-20's impairment model to be more consistent with SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities, 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 FSP was effective for the Company as of December 31, 2008. The adoption of this FSP did not have a significant impact on the consolidated financial statements of the Company.

On April 9, 2009 the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP was effective for the Company as of June 30, 2009. The adoption of this FSP did not have a significant impact on the consolidated financial position or results of operations. See Note 10 for the additional disclosures required by this FSP.

On April 9, 2009 the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP was effective for the Company as of June 30, 2009. The impact of the adoption of this FSP is discussed in Note 3, Stockholders Equity.

On May 28, 2009, the FASB issued SFAS No. 165, Subsequent Events. This statement is intended to establish general standards of accounting for the disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. This statement was effective for the Company as of June 30, 2009. The adoption of this statement did not have a significant impact on the consolidated financial position or results of operations. See Note 12 for the additional disclosure required by this FSP.

On June 12, 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets and SFAS No. 167 Amendments to FASB Interpretation No. 46(R), which changes the way entities account for securitizations and special purpose entities. Both statements are effective as of the beginning of the Company's first annual reporting period beginning after November 15, 2009. The adoption of these statements should not have a significant impact on the consolidated financial position, results of operations and disclosures.

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.

(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, 2009 and 2008.

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Change in Accounting Principles

With the adoption of the new FSP FAS 115-2 and FAS 124-2, the Company reviewed all previously-recorded other-than-temporary impairments of securities and estimated the credit versus the non-credit component consistent with the methodology used in the current period to analyze and bifurcate impairments into credit and non-credit components. As a result, the Company determined that $0.8 million in previously recorded other-than-temporary impairments had been due to non-credit impairments.

For each security, the Company developed its best estimate of the net present value of the cash flows expected to be received. The credit component of the impairment for these securities was determined to be the difference between the amortized cost of the security and the projected net cash flows. The non-credit component was determined to be the difference between projected net cash flows and fair value. It also determined whether it had the intent to sell the security, or if it was more likely than not that it will be required to sell the security, prior to the recovery of the non-credit component.

With the implementation of this FSP, the Company recorded a net of tax opening balance adjustment that increased retained earnings in the amount of $0.5 million and increased accumulated other comprehensive loss in the amount of $0.5 million. See Note 9 for further discussion of the adoption of the new FSP.

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

(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,			
	2009		2008	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	$ 18,842		18,142	
Dividends – Class A shares	-		-	
Dividends – Class B shares	-		-	
Undistributed income	$ 18,842		18,142	
Allocation of net income:				
Dividends	$ -	-	-	-
Allocation of undistributed income	18,307	535	17,627	515
Net income	$ 18,307	535	17,627	515
Denominator:				
Basic earnings per share - weighted-average shares	3,426	200	3,426	200
Effect of dilutive stock options	4	-	27	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,430	200	3,453	200
Basic Earnings Per Share	$ 5.34	2.67	5.15	2.57
Diluted Earnings Per Share	$ 5.34	2.67	5.10	2.57

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	Six Months Ended June 30,			
	2009		2008	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	$ 33,870		32,588	
Dividends – Class A shares	-		-	
Dividends – Class B shares	-		-	
Undistributed income	$ 33,870		32,588	
Allocation of net income:				
Dividends	$ -	-	-	-
Allocation of undistributed income	32,909	961	31,664	924
Net income	$ 32,909	961	31,664	924
Denominator:				
Basic earnings per share - weighted-average shares	3,426	200	3,424	200
Effect of dilutive stock options	4	-	26	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,430	200	3,450	200
Basic Earnings Per Share	$ 9.61	4.80	9.25	4.62
Diluted Earnings Per Share	$ 9.60	4.80	9.18	4.62

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(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. Going forward future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following summarizes the components of net periodic benefit cost.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Service cost	$ -	(180)	-	-
Interest cost	262	246	524	518
Expected return on plan assets	(223)	(295)	(445)	(570)
Amortization of prior service cost	1	1	2	2
Amortization of net loss	149	42	297	122
Net periodic benefit cost	$ 189	(186)	378	72

The Company expects to contribute $1.8 million to the plan in 2009. As of June 30, 2009, the Company has contributed $0.1 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.

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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,	
	2009	2008	2009	2008
	(In thousands)			
Service cost	$ 37	100	74	293
Interest cost	309	354	617	595
Amortization of prior service cost	260	260	520	520
Amortization of net loss	198	252	396	353
Net periodic benefit cost	$ 804	966	1,607	1,761

The Company expects to contribute $2.0 million to these plans in 2009. As of June 30, 2009, the Company has contributed $0.7 million to the plans.

(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,	
	2009	2008	2009	2008
	(In thousands)			
Interest cost	$ 33	32	65	67
Amortization of prior service cost	26	26	52	52
Amortization of net loss (gain)	-	(4)	-	3
Net periodic benefit cost	$ 59	54	117	122

As previously disclosed in its financial statements for the year ended December 31, 2008, the Company expects to contribute minimal amounts to the plan in 2009.

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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, 2009 and 2008 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2009:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$ 61,850	209,021	509,252	-	780,123
Total segment assets	393,864	1,000,007	5,448,684	146,332	6,988,887
Future policy benefits	319,259	608,331	4,776,427	-	5,704,017
Other policyholder liabilities	11,748	24,726	98,401	-	134,875
Three Months Ended June 30, 2009:					
Condensed Income Statements:					
Premiums and contract revenues	$ 9,418	26,585	7,248	-	43,251
Net investment income	4,962	9,822	75,096	3,863	93,743
Other income	6	12	78	3,411	3,507
Total revenues	14,386	36,419	82,422	7,274	140,501
Life and other policy benefits	4,334	4,374	1,540	-	10,248
Amortization of deferred policy acquisition costs	1,979	11,600	14,970	-	28,549
Universal life and annuity contract interest	2,226	10,480	44,945	-	57,651
Other operating expenses	3,649	5,174	4,540	3,268	16,631
Federal income taxes	686	1,553	5,164	1,285	8,688
Total expenses	12,874	33,181	71,159	4,553	121,767
Segment earnings	$ 1,512	3,238	11,263	2,721	18,734

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	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
Six Months Ended June 30, 2009:					
Condensed Income Statements:					
Premiums and contract revenues	$ 18,957	52,834	14,162	-	85,953
Net investment income	10,060	13,880	135,117	5,292	164,349
Other income	20	39	213	6,829	7,101
Total revenues	29,037	66,753	149,492	12,121	257,403
Life and other policy benefits	8,155	12,098	3,023	-	23,276
Amortization of deferred policy acquisition costs	4,334	24,762	27,401	-	56,497
Universal life and annuity contract interest	4,498	14,200	74,219	-	92,917
Other operating expenses	6,379	8,680	7,734	6,551	29,344
Federal income taxes	1,859	2,299	12,152	1,823	18,133
Total expenses	25,225	62,039	124,529	8,374	220,167
Segment earnings	$ 3,812	4,714	24,963	3,747	37,236

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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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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,	
	2009	2008	2009	2008
	(In thousands)			
Premiums and Other Revenue:				
Premiums and contract revenues	$ 43,251	38,217	85,953	74,329
Net investment income	93,743	72,278	164,349	131,708
Other income	3,507	3,153	7,101	6,292
Realized gains (losses) on investments	166	(267)	(5,179)	(311)
Total consolidated premiums and other revenue	$ 140,667	113,381	252,224	212,018

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Federal Income Taxes:				
Total segment Federal income taxes	$ 8,688	9,233	18,133	16,688
Taxes on realized gains (losses) on investments	58	(94)	(1,813)	(109)
Total consolidated Federal income taxes	$ 8,746	9,139	16,320	16,579

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Net Earnings:				
Total segment earnings	$ 18,734	18,315	37,236	32,790
Realized gains (losses) on investments, net of taxes	108	(173)	(3,366)	(202)
Total consolidated net earnings	$ 18,842	18,142	33,870	32,588

	June 30,	
	2009	2008

		(In thousands)
Assets:		
Total segment assets	$ 6,988,887	6,784,248
Other unallocated assets	47,864	42,082
Total consolidated assets	$ 7,036,751	6,826,330

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(7) 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 Company has issued only nonqualified stock options and stock appreciation rights. 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 par value, common stock shares eligible for issue not to exceed 300,000. These shares may be authorized and unissued shares.

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. On February 19, 2009, the Company awarded 29,393 stock appreciation rights to Company officers and 9,000 stock appreciation rights to Company directors at a market value price of $114.64. On April 18, 2008, the Company awarded 28,268 stock options to Company officers at a market value price of $255.13 and on June 20, 2008, the Company awarded 9,000 stock options to Company directors at a market value price of $208.05.

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.

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.

The Company uses the current fair value method to measure compensation cost. As of June 30, 2009 and 2008, the liability balance was $2.6 million and $6.3 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

Stock Options:				
Balance at January 1, 2009	291,400	105,812	$	174.33
Exercised	-	-		-
Forfeited	800	(800)		215.71
Expired	200	(200)		150.00
Stock options granted	-	-		-
Balance at June 30, 2009	292,400	104,812	$	174.06

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	Stock Appreciation Rights Outstanding	
	Awards	Weighted-Average Exercise Price
Stock Appreciation Rights:		
Balance at January 1, 2009	2,750	$ 245.70
SARs granted February 19, 2009	38,393	114.64
Balance at June 30, 2009	41,143	$ 123.40

The total intrinsic value of options exercised was zero and $2.3 million for the six months ended June 30, 2009 and 2008, respectively. The total share-based liabilities paid were zero and $2.0 million for the six months ended June 30, 2009 and 2008, respectively. For the quarters ended June 30, 2009 and 2008, the total cash received from the exercise of options under the Plan was zero and $0.4 million, respectively. The total fair value of shares vested during the six months ended June 30, 2009 and 2008 was $0.2 million and $2.0 million, respectively.

The following table summarizes information about stock options and SARs outstanding at June 30, 2009.

	Options Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
$ 92.13	10,194	1.8 years	10,194
95.00	6,000	2.0 years	6,000
150.00	51,850	4.8 years	32,650
255.13	27,768	8.8 years	-
208.05	9,000	9.0 years	1,800
236.00	1,250	9.1 years	-
251.49	1,000	9.2 years	-
256.00	500	9.2 years	-
114.64	38,393	9.6 years	-
Totals	145,955		50,644
Aggregate intrinsic value (in thousands)	$ 462		$ 381

The aggregate intrinsic value in the table above is based on the closing stock price of $116.75 per share on June 30, 2009.

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In estimating the fair value of the options outstanding at June 30, 2009 and December 31, 2008, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	June 30, 2009	December 31, 2008
Expected term of options	1 to 9 years	2 to 10 years
Expected volatility:		
Range	27.61% to 101.15%	24.70% to 77.55%
Weighted-average	49.08%	37.10%
Expected dividend yield	0.31%	0.22%
Risk-free rate:		
Range	1.52% to 3.74%	1.44% % to 2.40%
Weighted-average	2.63%	1.94%

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 $(1.2) million and $0.7 million for the six months ended June 30, 2009 and 2008, respectively. The related tax expense recognized was $(0.4) million and $0.2 million for the six months ended June 30, 2009 and 2008, respectively.

As of June 30, 2009, the total compensation cost related to nonvested options not yet recognized was $1.8 million. This amount is expected to be recognized over a weighted-average period of 2.6 years. The Company recognizes compensation cost over the graded vesting periods.

(8) 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 and the Company is currently opposing a recently filed motion for class certification. 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. The court heard oral arguments on May 8, 2009, and issued its opinion on July 21, 2009, stating that the matter was remanded to the SEC to address deficiencies in its Sec 2(b) analysis. In the event rule 151A is not overturned, it could have a material effect on the Company's business, results of operations and financial condition.

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(9) INVESTMENTS

(A) Investment Gains and Losses

The table below presents realized investment gains and losses, excluding impairment losses, for the periods indicated.

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Available for sale debt securities:				
Realized gains on disposal	$ 146	887	88	830
Realized losses on disposal	(180)	-	(30)	-
Held to maturity debt securities:				
Realized gains on disposal	114	149	35	27
Realized losses on disposal	(19)	-	(14)	-
Equity securities realized gains	62	79	103	72
Real estate writedown	(52)	-	(52)	-
Mortgage loans writedowns	(12)	(4)	(6)	(4)
Other	69	28	68	233
Totals	$ 128	1,139	192	1,158

The table below presents net impairment losses recognized in earnings for the periods indicated.

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Total other-than-temporary impairment losses on debt securities	$ (6,714)	-	(1,839)	-
Portion of loss recognized in comprehensive income	1,823	-	1,823	-
Net impairment losses on debt securities recognized in earnings	(4,891)	-	(16)	-
Equity securities impairments	(416)	(1,450)	(10)	(1,425)
Totals	$ (5,307)	(1,450)	(26)	(1,425)

In the second quarter of 2009, the Company recognized $1,839,000 as an other-than-temporary impairment on an available for sale mortgage-backed security, of which $16,000 was recognized in earnings as a credit loss and $1,823,000 was recognized in other comprehensive income as a non-credit loss. The credit component of the impairment was determined to be the difference between amortized cost and the present value of the cash flows expected to be received, discounted at the original yield.

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The table below presents a roll forward of credit losses on securities for which the company also recorded non-credit other-than-temporary impairments.

	Three Months Ended June 30, 2009 (In thousands)
Credit losses on securities held at beginning of period in other comprehensive loss, as of April 1, 2009	$ 28
Additions for credit losses not previously recognized in other-than-temporary impairment	16
Credit losses on securities held at the end of period in other comprehensive loss	$ 44

(B) Debt and Equity Securities

The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at June 30, 2009.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ 48,186	2,721	-	50,907
U.S. Treasury	1,920	430	-	2,350
States and political subdivisions	67,104	703	801	67,006
Foreign governments	9,959	548	-	10,507
Public utilities	602,780	17,668	8,418	612,030
Corporate	1,483,144	34,447	71,503	1,446,088
Mortgage-backed	1,709,241	75,264	3,767	1,780,738
Home equity	36,835	-	14,596	22,239
Manufactured housing	27,196	179	3,360	24,015

Totals	$ 3,986,365	131,960	102,445	4,015,880

A total of $0.7 million of non-credit other-than-temporary impairment on held to maturity manufactured housing securities is included in accumulated other comprehensive income, net of tax, as of June 30, 2009.

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	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	46,348	-	4,775	41,573
Foreign governments	10,388	810	-	11,198
Public utilities	318,203	6,407	7,200	317,410
Corporate	1,248,280	22,565	62,915	1,207,930
Mortgage-backed	242,731	8,926	4,977	246,680
Home equity	13,886	-	6,896	6,990
Manufactured housing	11,277	86	980	10,383
Equity securities – private	195	6,962	-	7,157
Equity securities – public	6,610	618	811	6,417
Totals	$ 1,897,918	46,374	88,554	1,855,738

Included in gross unrealized losses at June 30, 2009 is $1.8 million of non-credit other-than-temporary impairment on a mortgage backed security. This impairment is included in accumulated other comprehensive loss, net of tax and deferred acquisition costs.

During the quarter ended June 30, 2009, the Company made transfers totaling $30.7 million to the held to maturity category from securities available for sale. Lower holdings of securities available for sale reduce the Company's exposure to market price volatility while still providing securities for liquidity and asset/liability management purposes. The transfers of securities were recorded at fair value in accordance with GAAP, which requires that the $0.6 million unrealized holding gain at the date of the transfer continue to be reported in a separate component of stockholders' equity and be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

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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, 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
Home equity	37,808	37	9,533	28,312
Manufactured housing	30,396	93	3,790	26,699
Totals	$ 3,831,417	68,004	172,068	3,727,353

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	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
Home equity	13,877	-	4,726	9,151
Manufactured housing	11,942	-	1,019	10,923
Equity securities - private	195	6,995	-	7,190
Equity securities - public	6,912	486	905	6,493
Totals	$ 1,904,053	21,262	180,049	1,745,266

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The following tables show 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 June 30, 2009.

	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. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	28,608	484	9,318	317	37,926	801
Foreign governments	-	-	-	-	-	-
Public utilities	26,012	962	169,774	7,456	195,786	8,418
Corporate bonds	214,405	4,225	456,562	67,278	670,967	71,503
Mortgage-backed	-	-	60,236	3,767	60,236	3,767
Home equity	3,232	552	17,426	14,044	20,658	14,596
Manufactured housing	6,684	507	16,834	2,853	23,518	3,360
Total	$ 278,941	6,730	730,150	95,715	1,009,091	102,445

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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. Agencies	$	-	-	-	-	-	-
U.S. Treasury		-	-	-	-	-	-
State and political subdivisions		2,481	224	39,093	4,551	41,574	4,775
Foreign governments		-	-	-	-	-	-
Public utilities		-	-	142,976	7,200	142,976	7,200
Corporate bonds		153,377	10,949	567,443	51,966	720,820	62,915
Mortgage-backed		-	-	47,418	4,977	47,418	4,977
Home equity		-	-	6,990	6,896	6,990	6,896
Manufactured housing		800	87	8,537	893	9,337	980
		156,658	11,260	812,457	76,483	969,115	87,743
Equity securities – public		2,526	467	1,455	344	3,981	811
Total	$	159,184	11,727	813,912	76,827	973,096	88,554

Debt securities. The gross unrealized losses for debt securities at June 30, 2009 are made up of 329 individual issues, or 40.8% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 91.2%. Of the 329 securities, 256, or approximately 77.8%, fall in the 12 months or greater aging category; of the 329 debt securities, 306 were rated investment grade at June 30, 2009. Additional information on debt securities by investment category is summarized below:

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 54 securities. Of these securities, all are rated A or above except two which are rated BBB+ and BB. Based on these facts and the Company's intent not to sell, and belief that it is not more likely than not to be required to sell, prior to a market price recovery, no other-than-temporary loss was recognized as of June 30, 2009.

Public utilities. Of the 53 securities, all are rated BBB or above except one, which is priced at 79.9% 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 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 181 securities had unrealized losses; with 16 issues rated below investment grade. More extensive analysis was performed on these 16 issues and based on the work performed, none of the unrealized losses are considered other-than-temporarily impaired at June 30, 2009.

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Mortgage-backed securities. These securities are all rated AAA except one which is rated B. 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 AAA investments to have other-than-temporary impairments at June 30, 2009. The Company recognized an other-than-temporary loss in the second quarter of 2009 on the B rated security.

Home equity. Of the 15 securities, 9 are rated AAA, 2 are rated AA and 4 are rated below 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 4 issues rated below AA are not considered other-than-temporarily impaired.

Manufactured housing. Of the 12 securities, 8 are rated AAA, 1 is rated AA and 3 are rated below 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 3 issues rated below AA are not considered other-than-temporarily impaired.

Equity securities - public. The gross unrealized losses for equity securities are made up of 58 individual issues. These holdings are reviewed for impairment quarterly. During the six months ended June 30, 2009, the Company recorded other-than-temporary impairments on 19 equity securities.

Management believes the unrealized declines in fair values are temporary. Accordingly, realized credit losses have not been recorded by the Company.

The following tables show 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. 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
Home equity	5,901	559	19,657	8,974	25,558	9,533
Manufactured housing	17,507	1,404	7,024	2,386	24,531	3,790
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. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	45,848	8,675	13,486	4,978	59,334	13,653
Foreign governments	-	-	-	-	-	-
Public utilities	148,901	9,286	105,498	15,799	254,399	25,085
Corporate bonds	560,028	56,214	367,933	70,754	927,961	126,968
Mortgage-backed	-	-	48,540	7,693	48,540	7,693
Home equity	2,289	2,624	6,862	2,102	9,151	4,726
Manufactured housing	9,456	988	1,467	31	10,923	1,019
	766,522	77,787	543,786	101,357	1,310,308	179,144
Equity securities – public	2,057	577	1,205	328	3,262	905
Total temporarily impaired securities	$ 768,579	78,364	544,991	101,685	1,313,570	180,049

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(10) FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted 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.

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 Condensed 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.

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 observable market 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:

	June 30, 2009			
Description	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$ 1,842,164	-	1,834,619	7,545
Equity securities, available for sale	13,574	4,488	1,929	7,157
Derivatives	27,018	-	27,018	-
Total assets	$ 1,882,756	4,488	1,863,566	14,702
Policyholder account balances (a)	$ 30,273	-	30,273	-
Other liabilities (b)	2,557	-	-	2,557
Total liabilities	$ 32,830	-	30,273	2,557

	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	4,558	1,935	7,190
Derivatives	11,920	-	11,920	-
Total assets	$ 1,757,186	4,558	1,735,196	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 tables provide 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, 2009			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, April 1, 2009	$ 6,976	7,157	14,133	1,573
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	1,033
Included in other comprehensive income	1,104	-	1,104	-
Purchases, sales, issuances and settlements, net	(535)	-	(535)	(49)
Transfers into (out of) Level 3	-	-	-	-
Ending balance, June 30, 2009	$ 7,545	7,157	14,702	2,557
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, 2009	$ -	-	-	983

	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, 2009			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
		(In thousands)		
Beginning balance, January 1, 2009	$ 10,242	7,190	17,432	3,787
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	(1,241)
Included in other comprehensive loss	(2,160)	(33)	(2,193)	-
Purchases, sales, issuances and settlements, net	(537)	-	(537)	11
Transfers into (out of) Level 3	-	-	-	-
Ending balance, June 30, 2009	$ 7,545	7,157	14,702	2,557
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, 2009	$ -	-	-	(1,230)

	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 debt and equity securities are reported in the consolidated statements of earnings as net investment gains (losses), unrealized gains (losses) on available for sale 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 from 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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The carrying amounts and fair values of the Company’s financial instruments are as follows.

	June 30, 2009		December 31, 2008	
	Carrying Values	Fair Values	Carrying Values	Fair Values
	(In thousands)			
ASSETS				
Investments in debt and equity securities:				
Securities held to maturity	$ 3,986,365	4,015,880	3,831,417	3,727,353
Securities available for sale	1,855,738	1,855,738	1,745,266	1,745,266
Cash and short-term investments	54,850	54,850	67,796	67,796
Mortgage loans	93,016	94,174	90,733	90,884
Policy loans	77,928	77,928	79,277	79,277
Other loans	7,959	9,584	1,541	1,572
Derivatives	27,018	27,018	11,920	11,920
Life interest in Libbie Shearn Moody Trust	1,142	12,775	1,302	12,775
LIABILITIES				
Deferred annuity contracts	$ 4,418,468	4,073,973	4,324,702	3,997,005
Immediate annuity and supplemental contracts	428,735	439,890	388,486	409,553

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 maximum amount to be received from insurance proceeds in the event of Mr. Moody's 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.

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.

(11) Derivative Investments

Fixed-indexed products provide traditional fixed annuities and universal life contracts with the option to have credited interest rates linked in part to an underlying equity index or a combination of equity indices. 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 in which future policy benefits 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 index options, which are derivative financial instruments, to hedge the equity return component of its fixed-indexed annuity and life products. The index options act as hedges to match closely the returns on the underlying index or indices. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying index or indices. 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 index 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 or indices performance and terms of the contract.

The Company does not elect hedge accounting relative to these derivative instruments. The index options are reported at fair value in the accompanying consolidated financial statements. The changes in the values of the index options and the changes in the policyholder liabilities are both reflected in the condensed consolidated statement of earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the condensed consolidated 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 condensed consolidated statement of earnings.

Although there is credit risk in the event of nonperformance by counterparties to the index 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 June 30, 2009 and 2008, the fair values of index options owned by the Company totaled $27.0 million and $6.9 million, respectively.

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The tables below present the fair value of derivative instruments as of June 30, 2009 and December 31, 2008, respectively.

	June 30, 2009					
	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location		Fair Value (In thousands)	Balance Sheet Location		Fair Value (In thousands)
Derivatives not designated as hedging instruments under SFAS No. 133						
Equity index options	Derivatives, Index Options	$	27,018			
Fixed-indexed products				Universal Life and Annuity Contracts	$	30,273
Total		$	27,018		$	30,273

	December 31, 2008					
	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location		Fair Value (In thousands)	Balance Sheet Location		Fair Value (In thousands)
Derivatives not designated as hedging instruments under SFAS No. 133						
Equity index options	Derivatives, Index Options	$	11,920			
Fixed-indexed products				Universal Life and Annuity Contracts	$	19,377
Total		$	11,920		$	19,377

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The table below presents the effect of derivative instruments in the condensed consolidated statement of earnings for the six months ended June 30, 2009.
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Derivatives Not Designated as Hedging Instruments Under SFAS No. 133	Location of Gain or (Loss) Recognized In Income on Derivative		Amount of Gain or (Loss) Recognized In Income on Derivative (In thousands)
Equity index options	Net investment income	$	(6,061)
Fixed-indexed products	Universal life and annuity contract interest		(14,246)
		$	(20,307)

(12) SUBSEQUENT EVENTS

The Company allowed its $40 million bank line of credit with JP Morgan Chase Bank to expire at the end of its three-year term effective July 31, 2009. A new $40 million line of credit with Moody National Bank is expected to be established during August 2009. Robert L. Moody, the Company’s Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of Moody National Bank. The terms of the new line of credit are subject to the appropriate approvals by the Company’s Board of Directors.

Subsequent events have been evaluated through August 10, 2009, which is the date that the financial statements have been issued.

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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 is 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.

Management’s discussion and analysis of financial condition and results of operations (“MD&A”) of National Western Life Insurance Company for the three and six months ended June 30, 2009 follows. This discussion should be read in conjunction with the Company’s condensed consolidated financial statements and related notes beginning on page 3 of this report.

Overview

The Company provides life insurance products on a global basis for the savings and protection needs of policyholders and annuity contracts for the asset accumulation and retirement needs of contractholders both domestically and internationally. The Company accepts funds from policyholders or contractholders and establishes a liability representing future obligations to pay the policy or contract-holders and their beneficiaries. To ensure the Company will be able to pay these future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities.

Due to the business of accepting funds to pay future obligations in later years, the underlying economics and relevant factors affecting the life insurance industry include the following:

- level of premium revenues collected
- persistency of policies and contracts
- returns on investments
- investment credit quality
- levels of policy benefits and costs to acquire business
- effect of interest rate changes on revenues and investments including asset and liability matching
- adequate levels of capital and surplus

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item includes these indicators and presents information useful to an overall understanding of the Company’s business performance in 2009, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

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, 2009, the Company maintained approximately 117,460 annuity policies in force.

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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 5,600 independent agents contracted. Roughly 27% 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, 2009, the Company had approximately 72,650 international life insurance policies in force representing approximately $15.7 billion in face amount of coverage.

International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 4,700 independent international consultants and brokers currently contracted, 42% 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.

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,	
	2009	2008	2009	2008
	(In thousands)			
International:				
Universal life	$ 753	2,049	1,826	3,642
Traditional life	944	1,379	2,292	2,733
Equity-indexed life	4,536	5,689	8,802	11,433
	6,233	9,117	12,920	17,808

Domestic:					
Universal life		911	2,033	1,143	2,932
Traditional life		27	33	73	71
Equity-indexed life		318	892	818	3,224
		1,256	2,958	2,034	6,227
Totals	$	7,489	12,075	14,954	24,035

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Life insurance sales as measured by annualized first year premiums declined 38% in the second quarter of 2009 as compared to the second quarter of 2008 and declined by the same percentage for the first six months of 2009 compared to the same period in 2008. Both of the Company's life insurance lines of business, international and domestic, posted decreases over the comparable results in 2008 with international sales 32% and 27% lower for the three and six month periods ended June 30, 2009, respectively, and domestic life sales down 58% and 67% for the same three and six month periods.

Management has placed considerable emphasis on building domestic life insurance sales over the past several years as a strategic focus for future growth. This focus was partially in response to comments from outside rating agencies who expressed a preference for a greater proportion of overall Company earnings to derive from the life insurance line of business. The Company’s domestic operations have historically been more heavily skewed toward annuity sales than 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 had 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 2005 and this product has subsequently accounted for 40% to 60% of domestic life insurance sales.

The Company developed hybrids of the initial EIUL and SPUL products, combining features, and discontinued the marketing of smaller premium and volume life insurance policies. As a result, the Company attracted new independent distributors with access to customers purchasing larger face amounts of insurance per policy. During the latter part of 2008, the Company’s internal checking and monitoring procedures detected potential instances of rebating in certain domestic geographic markets and instituted commission caps and other preventive procedures to discourage this practice. Although not illegal in these markets, the practice of rebating is particularly prone to large face amount policies not renewing premium payments beyond the initial year of the policy. The Company’s actions discouraged sales of larger face amounts resulting in lower sales levels and amounts of insurance per policy as shown below.

	Average New Policy Face Amount	
	Domestic	International
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
Year ended December 31, 2008	455,200	272,000
Six months ended June 30, 2009	194,600	296,000

In addition to the action taken above by the Company, the U.S. economic climate has had a significant impact upon life insurance sales industry wide. The financial burdens associated with the current climate evidenced by loss of employment, higher debt levels, a reduction in wealth through home and financial holdings declines in value, and a higher propensity to save versus spending have resulted in dramatically reduced purchases of life insurance in the first half of 2009.

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. In the “financial crisis” economic climate of the past 12 to 18 months, individuals in countries outside of the United States have become increasingly leery of the U.S. economy and the stability of financial institutions and markets. These concerns have manifested in the past several quarters via reduced international sales.

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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, new sales efforts were 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). As noted previously, the Company’s international sales by geographic market tend to fluctuate with the socio and economic climates in these regions. The Company’s mix of international sales by geographic region is as follows.

	Six Months Ended June 30,	
	2009	2008
Percentage of International Sales:		
Latin America	69.2%	65.9%
Pacific Rim	21.4	20.9
Eastern Europe	9.4	13.2
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 (22%), Taiwan (18%), and Colombia (10%) making up the largest markets.

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,	
	2009	2008
	($ in thousands)	
Universal life:		
Number of policies	68,110	71,850
Face amounts	$ 7,677,170	7,977,850
Traditional life:		
Number of policies	48,300	50,450
Face amounts	$ 2,222,790	1,931,080
Fixed-indexed life:		
Number of policies	27,880	27,230
Face amounts	$ 6,452,230	6,265,720
Rider face amounts	$ 2,112,870	2,142,040
Total life insurance:		
Number of policies	144,290	149,530
Face amounts	$ 18,465,060	18,316,690

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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,	
	2009	2008	2009	2008
	(In thousands)			
Fixed-indexed annuities	$ 116,474	83,979	223,339	