HARDIE JAMES INDUSTRIES NV
Form 6-K
June 15, 2004

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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

June 15, 2004

JAMES HARDIE INDUSTRIES N.V.

(Exact name of Registrant as specified in its charter)

4th Level, Atrium, unit 04-07
Strawinskylaan 3077
1077 ZX Amsterdam, The Netherlands
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x   Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): Not Applicable

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): Not Applicable

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes x   No o

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not Applicable

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Safe Harbor Statement

The exhibit attached to this Form 6-K contains forward-looking statements. Words such as believe, anticipate, plan, expect, intend, target, estimate, project, predict, forecast, guideline, should, ai intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, which are further discussed in our reports submitted to the Securities and Exchange Commission on Forms 20-F and 6-K and in our other filings, include but are not limited to: competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with, and possible changes in, environmental and health and safety laws; dependence on cyclical construction markets; the supply and cost of raw materials; our reliance on a small number of product distributors; the consequences of product failures or defects; exposure to environmental or other legal proceedings; and risks of conducting business internationally. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those contained in forward-looking statements. Forward-looking statements speak only as of the date they are made.

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EXHIBIT INDEX

Exhibit No.	Description
99.1	Dividend Australian Currency Equivalent Lodged with the Australian Stock Exchange on June 11, 2004

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

James Hardie Industries N.V.

Date: June 15, 2004

By: /s/ Pim Vlot

Pim Vlot
Secretary

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EXHIBIT INDEX

Exhibit No.	Description
99.1	Dividend Australian Currency Equivalent Lodged with the Australian Stock Exchange on June 11, 2004

tr. 4)10. Ownership Form of Derivative Security: Direct (D) or Indirect (I)
(Instr. 4)11. Nature of Indirect Beneficial Ownership
(Instr. 4)CodeV(A)(D)Date ExercisableExpiration DateTitleAmount or Number of Shares Phantom Stock (unitized) (1)07/14/2016 A 92.031 (1) (1) Common Stock 26 $ 15.92 112,211.497 (2) I By Deferred Compensation Plan

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Stratton John G VERIZON COMMUNICATIONS INC. 1095 AVENUE OF THE AMERICAS NEW YORK, NY 10036			EVP & President of Operations	

Signatures

William L. Horton, Jr., Attorney-in-fact for John G. Stratton	07/18/2016
**Signature of Reporting Person	Date

Explanation of Responses:

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

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

(1) Each share of phantom stock is the economic equivalent of a portion of one share of common stock and is settled in cash. The shares of phantom stock become payable upon events established by the reporting person in accordance with the deferred compensation plan.

(2) Includes phantom stock acquired through dividend reinvestment.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. nowrap align="right" style="border-top: 2px solid #000000"> N/A(5) N/A(5)

(1) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as

amended (the Securities Act). Exclusive of accrued interest, if any.

(2) The registration fee is calculated pursuant to Section 6(b) of the Securities Act on the basis of the offering price of the Debentures.

(3) The Debentures are convertible into shares of the Company s common stock at an initial conversation rate of $6.50 per share. The Debentures provide that if investors convert into the common stock or if the Debentures are called by the Company before the three-year anniversary of the original issuance date, the holders of the Debentures will be entitled to a payment in an amount equal to all interest that would have accrued if the principal amount subject to such conversion had remained

outstanding through such three-year anniversary (the Interest Make-Whole), and the Company may, at its option, pay the Interest Make-Whole premium in cash or shares of common stock. The Debentures are convertible into a maximum of 8,411,937 shares of the Company s common stock, assuming the payment of the maximum Interest Make-Whole premium in shares, or 6,153,852 shares excluding the Interest Make-Whole premium. As it is as yet undetermined whether the Interest Make-Whole premium will be paid in shares, the Company has elected to register the maximum number of shares of common stock issuable pursuant to the Debentures. Pursuant to Rule

416(a), this registration statement also includes an indeterminate number of shares that may be issued in connection with a stock split, stock dividend, recapitalization or similar transaction.

(4) No additional consideration will be received for any shares of common stock issued upon conversion of the Debentures, and accordingly, no registration fee is required pursuant to Rule 457(i) of the Securities Act.

(5) The Debentures are the obligations of the Company and are guaranteed by certain subsidiaries of the Company as listed on the following pages. Pursuant to Rule 457(n) under the Securities Act, no additional registration fee is required.

* The following domestic subsidiaries of Teton Energy Corporation are guarantors and co-registrants. The address for each is 410 17th Street, Suite 1850, Denver, Colorado, 80202, and the telephone number is (303) 565-4600.

Exact name of registrant as specified in its	State or other

charter; address, including zip code, and telephone number, including area code, of registrant s principal executive offices	jurisdiction of incorporation or organization	I.R.S. Employer Identification No.
Teton North America LLC	Colorado	84-1482290
Teton Piceance LLC	Colorado	84-1482290
Teton DJ LLC	Colorado	84-1482290
Teton Williston LLC	Colorado	84-1482290
Teton Big Horn LLC	Colorado	84-1482290
Teton DJCO LLC	Colorado	84-1482290

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 10, 2008

PRELIMINARY PROSPECTUS

$40,000,000

10.75% Secured Subordinated Convertible Debentures due 2013,
up to 8,411,937 Shares of Common Stock
issuable upon conversion of the Debentures
and
Subordinated Guaranty and Pledge Agreement

This prospectus relates to $40,000,000 aggregate principal amount of our 10.75% Secured Subordinated Convertible Debentures Due 2013 (the Debentures) which we sold and issued in a private placement that closed on June 18, 2008. The selling securityholders named herein may use this prospectus to resell from time to time the Debentures and the shares of our common stock issuable pursuant to the terms of the Debentures.

The Debentures are convertible by holders into shares of our common stock based on an initial conversion price of $6.50 per share, subject to adjustment as described herein. The Debentures contain a no-call provision for the first two years of the five-year term and a provisional call thereafter if the price of the underlying common stock exceeds 150% of the conversion price, or $9.75, for any 20 trading days in a 30-trading day period. If investors convert into the common stock or if we call the Debentures before the three-year anniversary of the original issuance date, the holders of the Debentures are entitled to a payment in an amount equal to the present value of all interest which would have accrued if the principal amount subject to such conversion had remained outstanding through such three-year anniversary. The Debentures are secured by a second lien on all assets in which our senior lender maintains a lien under our amended and restated senior Credit Agreement. The obligations under the Debentures are further guaranteed by each of our subsidiaries pursuant to a Subordinated Guaranty and Pledge Agreement which also may be resold hereunder.

The Debentures bear interest at a rate of 10.75% per year payable semiannually in arrears on July 1 and January 1 of each year. The first such payment was made on July 1, 2008. The Debentures will mature on June 18, 2013, unless earlier converted, redeemed or repurchased. The purchasers of the Debentures have a 90-day put option whereby they may elect to reduce their investment in the Debentures by a total of 25% of the face amount at the original purchase price. This put option expires on September 18, 2008.

The selling securityholders will receive all of the net proceeds from this offering. Additional selling securityholders may be named by prospectus supplement.

Our common stock is listed on the American Stock Exchange under the symbol TEC. The closing sale price of our common stock as reported on the American Stock Exchange on September 5, 2008 was $3.65 per share. The Debentures are not listed and we do not intend to list the Debentures on any national securities exchange.

Investing in our securities involves a high degree of risk. See Risk Factors, beginning on page 7 of this prospectus and those contained in our incorporated documents, to read about factors you should consider before buying our Debentures, the related Guarantees or shares of our common stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2008.

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SUMMARY

This summary highlights selected information about us. This summary is not complete and does not contain all of the information that you should consider before investing in our securities. You should carefully read the entire prospectus and the documents incorporated by reference herein and therein, including the Risk Factors section and the financial statements and related notes, before making an investment decision in our securities. Unless the context requires otherwise or unless otherwise noted, all references in this prospectus to Company, Teton, we, us, and our are to Teton Energy Corporation and its subsidiaries. Unless otherwise indicated, the term year, fiscal year or fiscal refers to our fiscal year ending December 31st.

Our Company

Teton Energy Corporation was formed in November 1996 and is incorporated in the State of Delaware. We are an independent oil and gas exploration and production company focused on the acquisition, exploration and development of North American properties. Our current operations are concentrated in the prolific Rocky Mountain and Mid-continent regions of the U.S. We have leasehold interests in the Central Kansas Uplift, the Piceance Basin in western Colorado, the eastern Denver-Julesburg Basin in Colorado, Kansas and Nebraska, the Williston Basin in North Dakota and the Big Horn Basin in Wyoming. Teton is headquartered in Denver, Colorado, and is publicly traded on the American Stock Exchange under the ticker symbol TEC.

Central Kansas Uplift

In April 2008, we acquired reserves, production and certain oil and gas properties in the Central Kansas Uplift of Kansas from Shelby Resources, LLC, a private oil and gas company, and a group of approximately 14 other working interest owners for approximately $53.6 million, after post closing adjustments. The purchase price was funded with $40.2 million of cash, $13.0 million of our common stock and warrant coverage of 625,000 shares at a $6.00 exercise price with a two-year term, valued at $434,000. The purchase price included 50 producing wells, 22 wells with production behind pipe, 5 proved undeveloped locations and 29 identified probable locations on the 8,719 gross acres, all of which is operated by us. Additionally, the purchase price included 39,385 gross (23,631 net) undeveloped acres operated by us at a 60% working interest.

Piceance Basin

Our non-operated properties in the Piceance Basin, which are operated by Berry Petroleum, originally consisted of a 25% working interest (19.69% net revenue interest) in a 6,314-acre block located in Garfield County, Colorado, immediately to the northwest of Grand Valley gas field, the westernmost of the four gas fields that comprise the continuous, basin-centered, tight gas sand accumulation (the Piceance Fairway).

On October 1, 2007, we completed the sale of one-half of the 25% working interest in the Piceance assets for $41.4 million total consideration (including post-closing adjustments), including $36.7 million of cash, and $4.7 million worth of acreage (499,904 gross acres) and production (1 MMcfd) in the DJ Basin (see further discussion of DJ Basin assets below). We purchased the original acreage for approximately $4,000 per acre and realized approximately $48,000 per acre on this sale. After the sale, we have a 12.5% working interest in the 6,314 gross acres (789 net).

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These properties are in the vicinity of major gas production from continuous basin-centered, tight gas sand accumulations within the Williams Fork formation of the Upper Cretaceous Mesaverde group and the shallower Lower Tertiary Wasatch formation. The primary targets for drilling on this acreage are the 1,500 -2,500 thick, gas-saturated sands of the middle and lower Williams Fork formation at approximately 6,000 -9,000 in depth. In addition, the subject acreage is surrounded on the west, east and southeast by completed gas wells. To the northwest of the block is the Trail Ridge gas field (Wasatch and Mesaverde). To the west, south and east are gas wells of the greater Grand Valley field.

DJ Basin

We own an interest in 970,132 gross (610,473 net) acres in the Denver-Julesburg Basin, a geologic depression encompassing Eastern Colorado, Southwest Wyoming, Northwest Kansas and Western Nebraska. Our acreage in the basin is comprised of four main operating areas, the Teton-Noble AMI, operated by Noble Energy, Inc. (Noble) and our operated areas of Washco, Frenchmen Creek and South Frenchmen Creek.

Teton Noble AMI

We acquired our first interest in this play through a series of transactions between April 2005 and July 2005 that resulted in our accumulating over 182,000 gross acres. In December 2005, we entered into an Acreage Earning Agreement (Earning Agreement) with Noble, under which Noble paid us $3 million and earned a 75% working interest in our DJ Basin acreage after drilling and completing 20 wells, at no cost to us. Pursuant to the Earning Agreement, we retained a 25% working interest in the AMI created by the Earning Agreement, and both parties share all costs at each individual s respective percentages. Through June 30, 2008, the parties have grown our shared acreage position to 330,152 gross acres (75,310 net) in the eastern DJ Basin located on the Nebraska-Colorado border in Chase, Dundy, Perkins, and Keith Counties, Nebraska.

The drilling target of this play is primarily the Niobrara formation, within which is trapped biogenic gas in the Beecher Island Chalk of the Upper Cretaceous Niobrara formation. The gas is contained in shallow structural traps at depths ranging from 1,700-2,500 feet. The acreage is located approximately 20 to 30 miles to the east of the main Niobrara gas productive trend that has been established to the west in Yuma, Phillips, and Sedgwick Counties, Colorado, and in Duell and Garden Counties, Nebraska.

Washco

As part of the sale of a one-half interest in our Piceance properties (see comments under Piceance Basin above), we acquired a large, contiguous block of operated acreage in the DJ Basin of 499,904 gross acres (413,786 net) primarily in Washington and Yuma Counties, Colorado. The acreage is southwest of our existing acreage in the DJ Basin the Teton Noble AMI and Frenchman Creek prospect areas. There was also approximately 1 MMcfed of production net to Teton associated with this acreage acquisition. This production breaks down as follows: 125 bopd net, primarily from the Spotted Dog Field, a J sand producer, and 300 Mcfd of gas net, from Niobrara reservoirs. The drilling targets of this play are the Niobrara formation for gas, and the J and D sands for oil. The gas is contained in shallow structural traps at depths ranging from 1,700-2,500 feet. The oil is contained either in four-way structural traps or stratigraphic traps with depths ranging from 4,300-4,500 feet.

Frenchman Creek

The Frenchman Creek acreage block, 28,204 gross acres (11,689 net), is located in Phillips County, Colorado, in the eastern DJ Basin. In 2007, we entered into an agreement with Targe Energy Exploration and Production, LLC (Targe) to carry us on two pilot wells in exchange for a proportionate share of Targe s 3-D seismic. In exchange, Targe earned a 50 percent interest in the acreage block. The project is operated by us. The two pilot wells drilled by Targe were dry holes. We have staked and permitted 9 additional locations for Niobrara test wells. We intend to acquire additional 3-D seismic later in the year in order to help determine the location and order of any future drilling.

South Frenchman Creek

In November 2007, we acquired bolt-on acreage (contiguous to our current acreage) in the DJ Basin that allowed us to establish a new area, operated by us, of 111,872 gross acres (109,688 net) in Yuma County, Colorado, southern Dundy County, Nebraska and northwestern Cheyenne County, Kansas. The acreage is in proximity to existing Niobrara gas production and deeper Lansing-Kansas City oil production.

Williston Basin

On May 5, 2006, we acquired a 25% working interest from American Oil and Gas, Inc. (American) in approximately 87,192 gross acres in the Williston Basin located in Williams County, North Dakota, which has grown to 88,472 gross acres (18,732 net). In addition to our 25% working interest and American s 50% working interest, we have two other partners in the acreage: Evertson Energy Company (Evertson), which is the operator and has a 20% working interest, and Sundance Energy, Inc., which has a 5% working interest.

The targets of this prospect are the oil of the Mississippian Bakken formation and the natural gas of the Red River formation of the Williston Basin. This Bakken shale produces from horizontal wells at a depth of approximately 10,500 feet. The lateral legs will vary from 3,000 to 9,000 feet in length. Although the primary area with notable production from the Bakken is in Richland County, Montana, several wells have been completed directly to the east of our acreage block. Multiple stage fracture stimulation is used to increase recoveries. We participated in a Red River test well in November 2007 and in a 3D seismic survey in the Red River lead area in January 2008, and we believe there are as many as 10 gross future locations for Red River wells. Secondary horizons in this area include the Madison, Duperow, Nisku, and Interlake formations.

Big Horn Basin

In 2007, we acquired 16,417 gross acres (15,132 net) in the Big Horn Basin of Wyoming that will allow us to further add to our growing operating presence. We have grown this acreage position to 22,780 gross acres at June 30, 2008. The Greybull and Peay Sand formations are conventional oil and gas targets for this play and the Mowry Shale is an unconventional horizontal gas target.

We have signed an Exploration Agreement with Unit Petroleum (Unit), wherein Unit will carry us on the drilling of two wells in exchange for an interest in those wells. Unit will pay 90% of the costs to casing point of the first well, a vertical well to test the Greybull formation, and, after that point in time, costs will be shared by us and Unit on a 50/50 basis. The second well to be drilled by Unit is a horizontal well to test the Mowry formation. Unit will pay 60% of the well costs to casing point after which point all future costs will be shared by us and Unit on a 50/50 basis. In exchange, Unit will then earn 50% of our interest in the entire prospect. We are currently in the process of obtaining permits for first Greybull well.

Recent Developments

On June 30, 2008, we completed the syndication of our revolving credit facility with a group of four banks, including JPMorgan Chase Bank as administrative agent.

On July 14, 2008, at a meeting of our Board of Directors, Dominic J. Bazile, II, the Company s current Executive Vice President and Chief Operating Officer, was appointed to our Board of Directors. Mr. Bazile will serve until standing for election at the annual meeting of our shareholders, tentatively scheduled for May 7, 2009. In accordance with the corporate governance rules of the American Stock Exchange, our Board has determined that Mr. Bazile is not independent as a result of his current employment with the Company, and thus was not appointed to serve on any Board committees. Mr. Bazile will not receive any additional compensation for his service on the Board of Directors.

On August 4, 2008, the Compensation Committee of our Board of Directors certified the results of the performance milestones associated with the 2007 and 2008 grants of performance share units to certain officers and directors of the Company that were created in accordance with the Company s 2005 Long-Term Incentive Plan (the LTIP). As a consequence of such certification, an aggregate of 454,464 shares of common stock vested as of such date.

On August 28, 2008, we announced that our Board of Directors approved the decision to switch the listing of our common stock from the American Stock Exchange to the NASDAQ Stock Market LLC®. Effective September 8, 2008, the Company commenced trading on the NASDAQ Capital Market under the symbol NASDAQ: TEC.

How to Contact Us

Our principal executive offices are located at 410 17th Street, Suite 1850. Our main telephone number is (303) 565-4600. We maintain a website at www.teton-energy.com, however, the information contained on our website does not constitute part of this prospectus.

SUMMARY OF THE OFFERING AND THE DEBENTURES

Issuer:	Teton Energy Corporation
Selling Securityholders:	The securities to be offered and sold under this prospectus will be offered and sold by the selling securityholders named in this prospectus or in any supplement to this prospectus. See Selling Securityholders.
Securities Offered:	(i) $40,000,000 principal amount of 10.75% Secured Subordinated Convertible Debentures due 2013, (ii) the related Subordinated Guaranty and Pledge Agreement, and (iii) up to 8,411,937 shares of common stock which are issuable upon conversion of the Debentures and upon satisfaction of the Interest-Make Whole premium in shares of common stock.
Shares of Common Stock Outstanding prior to this Offering:	21,954,490 shares, as of September 5, 2008
Shares of Common Stock Outstanding After this Offering:	21,954,490 shares
Maturity of Debentures:	June 18, 2013, unless earlier converted or redeemed.
Initial Conversion Price of Debentures:	$6.50
Debenture Interest Rate:	The Debentures bear interest at a rate of 10.75% per annum. Interest on the Debentures began accruing on June 18, 2008. Interest is payable semi-annually in arrears on January 1

and July 1 of each year. The first interest payment was made on July 1, 2008.

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Interest Make-Whole Premium:	In the event that you are required to convert or we redeem all or any portion of the Debentures prior to the third anniversary of the Original Issue Date (i.e., June 18, 2011), we have agreed to pay the present value of all interest which would have accrued on the principal amount being converted or redeemed after the date of such conversion or redemption as if no payment of such principal amount were made prior to the third anniversary. Interest make-whole may be paid in cash or registered shares of our common stock solely at our option and subject to certain conditions. The value of each such share of stock shall generally be determined based on ninety percent of the lower of the (i) VWAP for such stock for the ten (10) trading days immediately prior to the date such payment is due, and (ii) the closing price of the stock on the day immediately preceding the conversion date or redemption date.
Security:	The Debentures are secured by a second lien on all of our assets in which our senior lender maintains a lien.
Debenture Ranking:	In accordance with an Intercreditor and Subordination Agreement we entered into with our senior secured lender and our subsidiary guarantees, the Debentures are subordinated in right of payment to our senior secured revolving credit facility and senior in right of payment to all of our existing and future indebtedness subordinated to the Debentures.
Change of Control:	In the event of a Change of Control Transaction, the Debentures are (i) subject to repurchase by us, at the holder s option, at a purchase price equal to the sum of 103 percent of the principal amount being redeemed together with 100 percent of any accrued but unpaid interest and the Interest Make-Whole premium, if any, and (ii) are subject to an increase in the number of Conversion Shares issuable following a Change of Control Transaction based upon the change of control date and the price of our common stock.
Optional Redemption at the Election of the Company:	The Debentures contain a two-year no-call provision and a provisional call thereafter if the price of the underlying shares of common stock exceeds 150% of the conversion price, or $9.75, for any 20 trading days in a 30-trading day period.
Optional Redemption at the Election of the Holder:	

	The Debentures contain a 90-day put option whereby the holders may elect to reduce their investment in the Debentures by up to a total of 25% of the face amount at the original purchase price.
Global Debentures:	The Debentures are evidenced by one or more Global Debentures and we deposited the Global Debenture with DTC and registered the Global Debentures in the name of Cede & Co. as DTC s nominee.
American Stock Exchange Symbol:	Our common stock is listed for trading on the American Stock Exchange under the symbol TEC. The Debentures are not listed and we do not intend to list the Debentures on the American Stock Exchange or any other national securities exchange.

Use of Proceeds:	The selling securityholders will receive all proceeds from the sale of our securities in this offering. We will not receive any of the proceeds from the sale of our Debentures, Subordinated Guarantees or shares of common stock by the selling securityholders.
Dividend Policy:	We have not paid any dividends on our common stock since inception, and we do not anticipate the declaration or payment of any dividends at any time in the foreseeable future.
Risk Factors:	See Risk Factors beginning on page 7 of this prospectus and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our securities.

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RISK FACTORS

Investing in our securities involves risk. In evaluating the Company, careful consideration should be given to the following risk factors, in addition to the other information included or incorporated by reference in this Form S-3. Each of these risk factors could materially adversely affect our business, operating results or financial condition, as well as adversely affect the value of an investment in our common stock. In addition, the "Forward-Looking Statements located in this prospectus, and the forward-looking statements included or incorporated by reference herein describe additional uncertainties associated with our business.

Risks Related to our Business

We have incurred significant losses. We expect future losses and we may never become profitable.

We have incurred significant losses in the past. For the years ended December 31, 2007, 2006, and 2005, we incurred net income (losses) from operations of $2.4 million, ($5.7 million), and ($4.1 million), respectively. In addition, we had an accumulated deficit of $66.1 million at June 30, 2008. There can be no assurance that we will be able to maintain profitability.

Substantially all of our producing properties are located in the prolific Rocky Mountain and Mid-continent regions of the U.S. making us vulnerable to risks associated with operating in only two geographic areas.

Our current operations are focused on the prolific Rocky Mountain and Mid-continent regions, which means our producing properties are geographically concentrated in those areas. As a result, we may be disproportionately exposed to the impact of delays or interruptions of production from these wells caused by significant governmental regulation, transportation capacity constraints, curtailment of production or interruption of transportation of oil and natural gas produced from the wells in these regions.

We may be unable to fund our planned capital expenditures.

We spend and will continue to spend a substantial amount of capital for the acquisition, exploration, exploitation, development and production of oil and gas reserves. We have historically addressed our short and long-term liquidity needs through the use of cash flow provided by operating activities, borrowing under bank credit facilities and the issuance of equity. Without adequate financing we may not be able successfully to execute our operating strategy. The availability of these sources of capital will depend upon a number of factors, some of which are beyond our control. These factors include:

- general economic and financial market conditions;
- oil and natural gas prices; and
- our market value and operating performance.

We may be unable to execute our operating strategy if we cannot obtain adequate capital. If low oil and natural gas prices, lack of adequate gathering or transportation facilities, operating difficulties or other factors, many of which are beyond our control, cause our revenues and cash flows from operating activities to decrease, we may be limited in our ability to spend the capital necessary to complete our capital expenditures program.

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Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition, or results of operations.

Our future success will depend on the success of our exploration, exploitation, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control; including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Our cost of drilling, completing and operating wells are often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical.

Acquisitions are a part of our business strategy and are subject to the risks and uncertainties of evaluating recoverable reserves and potential liabilities.

Our business strategy includes a continuing acquisition program. In addition to leaseholds, we are seeking to acquire producing properties including the possibility of acquiring producing properties through the acquisition of an entire company. Possible future acquisitions could result in our incurring additional debt, contingent liabilities and expenses, all of which could have a material adverse effect on our financial condition and operating results.

The successful acquisition of producing and non-producing properties requires an assessment of a number of factors, many of which are inherently inexact and may prove to be inaccurate. These factors include: evaluating recoverable reserves, estimating future oil and gas prices, estimating future operating costs, estimating future development costs, estimating the costs and timing of plugging and abandonment and potential environmental and other liabilities, assessing title issues and other factors. Our assessments of potential acquisitions will not reveal all existing or potential problems, nor will such assessments permit us to become familiar enough with the properties fully to assess their capabilities and deficiencies. In the course of our due diligence, we may not inspect every well or pipeline. Inspections may not reveal structural and environmental problems, such as pipeline corrosion or groundwater contamination, when they are made. We may not be able to obtain contractual indemnities from a seller of a property for liabilities that we assume. We may be required to assume the risk of the physical condition of acquired properties in addition to the risk that the acquired properties may not perform in accordance with our expectations. As a result, some of the acquired businesses or properties may not produce revenues, reserves, earnings or cash flow at anticipated levels and, in connection with these acquisitions, we may assume liabilities that were not disclosed to or known by us or that exceed our estimates.

Our ability to complete acquisitions could be affected by competition with other companies and our ability to obtain financing or regulatory approvals.

In pursuing acquisitions, we compete with other companies, many of which have greater financial and other resources to acquire attractive companies and properties. Competition for acquisitions may increase the cost of, or cause us to refrain from, completing acquisitions. Our strategy of completing acquisitions is dependent upon, among other things, our ability to obtain adequate financing and, in some cases, regulatory approvals.

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Our acquisitions may pose integration risks and other difficulties.

Increasing our reserve base through acquisitions is an important part of our business strategy. Our failure to integrate acquired businesses successfully into our existing business, or the expense incurred in consummating acquisitions, could result in our incurring unanticipated expenses and losses.

In addition, the process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant management attention and financial resources that would otherwise be available for the ongoing development or expansion of existing operations.

Possible future acquisitions could result in our incurring additional debt, contingent liabilities and expenses, all of which could have a material adverse effect on our financial condition and operating results.

Competitive industry conditions may negatively affect our ability to conduct operations.

Competition in the oil and gas industry is intense and oil and gas companies actively bid for desirable oil and gas properties, as well as for the equipment, supplies, labor and services required to operate and develop their properties. Some of these resources may be limited and have higher prices due to strong demand. Many of our competitors have financial resources that are substantially greater than ours, which may adversely affect our ability to compete within the industry.

We have limited operating control over some of our current production.

Approximately half of our current production comes through joint operating agreements under which we own partial non-operated interests in oil and natural gas properties. For that production, we do not have control over normal operating procedures, expenditures or future development of underlying properties. Consequently, a portion of our operating results are beyond our control. The failure of an operator of our wells to perform operations adequately, or an operator s breach of the applicable agreements, could reduce our production and revenues. In addition, the success and timing of our drilling and development activities on properties operated by others depends upon a number of factors outside of our control, including the operator s timing and amount of capital expenditures, expertise and financial resources, inclusion of other participants in drilling wells and the use of technology. Since we do not have a majority interest in our current non-operated properties, we may not be in a position to remove the operator in the event of poor performance. Further, significant cost overruns of an operation in any one of our current non-operated projects may require us to increase our capital expenditure budget and could result in some wells becoming uneconomic.

Oil and gas prices fluctuate widely, and low prices for an extended period of time are likely to have a material adverse impact on our business, results of operations and financial condition.

Our revenues, profitability, future growth and reserve calculations depend on reasonable prices for oil and natural gas. These prices also affect the amount of our cash flow available for capital expenditures and payments on our debt, and our ability to borrow and raise additional capital. The amount we can borrow under our senior secured revolving credit facility (see Note 6 to our Consolidated Financial Statements as of and for the six months ended June 30, 2008, which are incorporated in this prospectus by reference) is subject to periodic borrowing base re-determinations based in part on changing expectations of future crude oil and natural gas prices. Lower prices may also reduce the amount of oil and gas that we can produce economically.

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Among the factors that can cause fluctuations are:

- domestic and foreign supply, and perceptions of supply, of oil and natural gas;
- level of consumer demand;
- political conditions in oil and gas producing regions;
- weather conditions;
- world-wide economic conditions;
- domestic and foreign governmental regulations; and
- price and availability of alternative fuels.

We have multiple hedges placed on our oil and gas production to attempt to mitigate this problem to some extent. See Item 7A Quantitative and Qualitative Disclosures about Market Risk, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated in this prospectus by reference.

Our use of oil and natural gas price hedging contracts involves credit risk and may limit future revenues from price increases while not hedging may result in significant fluctuations in our net income and stockholders equity.

We enter into hedging transactions for our oil and natural gas production to reduce our exposure to fluctuations in the prices of oil and natural gas. We may in the future enter into additional hedging arrangements to reduce our exposure to fluctuations in the market prices of oil and natural gas. Hedging transactions expose us to risk of financial loss in some circumstances, including if production is less than the total volumes hedged or the other party to the contract defaults on its obligations. Hedging transactions will also limit the benefit we otherwise would have received from increases in the price for oil and natural gas, when the respective price goes above our hedged price.

Our credit facility has substantial restrictions and financial covenants, and we may have difficulty obtaining additional credit, which could adversely affect our operations.

Our revolving credit facility limits the amounts we can borrow to a borrowing base amount, determined by our lenders in their sole discretion, based upon, among other things, our level of proved reserves and the projected revenues from the oil and natural gas properties securing our loan. The lenders on our revolving credit facility can unilaterally adjust the borrowing base and the borrowings permitted to be outstanding. Any increase in the borrowing base requires the consent of the lenders.

Upon a downward adjustment of the borrowing base, if borrowings in excess of the revised borrowing base are outstanding, we could be forced to repay our indebtedness in excess of the borrowing base under the revolving credit facility if we do not have any substantial unpledged properties to pledge as additional collateral.

Our debt level and the covenants in the agreements governing our debt could negatively impact our financial condition, results of operations and business prospects.

Our level of indebtedness, and the covenants contained in the agreements governing our debt, could have important consequences for our operations, including:

- requiring us to dedicate a substantial portion of our cash flow from operations to required payments on debt, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;

limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and general corporate and other activities;

limiting our flexibility reacting to changes in our business and the industry in which we operate;

placing us at a competitive disadvantage relative to other less-leveraged competitors; and

making us vulnerable to increases in interest rates, because borrowings under our credit facility may be at floating interest rates which are subject to change from time to time, based on LIBOR or U.S. prime rates.

The instruments governing our indebtedness contain various covenants limiting the discretion of our management in operating our business.

Our revolving credit facility contains various restrictive covenants that limit our management s discretion in operating our business. In particular, these agreements will limit our and our subsidiaries ability to, among other things:

pay dividends on, redeem or repurchase our capital stock or redeem or repurchase our subordinated debt;

make loans to others;

make investments;

incur additional indebtedness;

create certain liens;

sell assets;

enter into agreements that allow dividends or other payments from our subsidiaries to us;

consolidate, merge or transfer all or substantially all of the assets of us and our subsidiaries taken as a whole;

engage in transactions with affiliates;

enter into hedging contracts;

create unrestricted subsidiaries; and

enter into sale and leaseback transactions.

In addition, our revolving credit facility also requires us to maintain a certain working capital ratio and a certain debt to EBITDAX (as defined in the revolving credit facility as earnings before interest, taxes, depreciation, amortization and exploration expense and other non-cash items) ratio. If we fail to comply with the restrictions in the revolving credit facility (or any other subsequent financing agreements), a default may occur which might allow the creditors (if the agreements so provide) to accelerate the related indebtedness as well as any other indebtedness to which a cross-acceleration or cross-default provision applies. In addition, lenders may be able to terminate any commitments they had made to make available further funds.

Seasonal weather conditions and lease stipulations can adversely affect the conduct of drilling activities on our properties.

Oil and natural gas operations, in the areas in which we operate, can be adversely affected by seasonal weather conditions and lease stipulations designed to protect various wildlife, particularly in the Rocky Mountain region where we currently operate. In certain areas, drilling and other oil and natural gas activities can only be conducted during the spring and summer months. This may limit operations in those areas and can intensify competition during those months for drilling rigs, oil field equipment, services, supplies and qualified personnel, which may lead to periodic shortages. Resulting shortages or high costs could delay our operations and materially increase our operating and capital costs.

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Our reserves and future net revenues may differ significantly from our estimates.

The estimates of reserves and future net revenues are not exact and are based on many variable and uncertain factors; therefore, the estimates may vary substantially from the actual amounts depending, in part, on the assumptions made and may be subject to adjustment either up or down in the future. The actual amounts of production, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves to be encountered may vary substantially from the estimated amounts. In addition, estimates of reserves are extremely sensitive to the market prices for oil and gas.

The loss of key personnel could adversely affect our business.

We currently have key employees that serve in senior management roles. The loss of any one of these employees could severely harm our business. Although we have a life insurance policy on our Chief Executive Officer, of which we are a part beneficiary, we do not currently maintain key man insurance on the lives of any of the other key employees. Furthermore, competition for experienced personnel is intense. If we cannot retain our current personnel or attract additional experienced personnel, our ability to compete could be adversely affected.

We may incur non-cash charges to our operations as a result of current and future financing transactions.

Under current accounting rules, we have incurred $8.0 million of non-cash charges for the six months ended June 30, 2008, and may incur additional non-cash charges to future operations beyond the stated contractual interest payments required under our current and potential future financing arrangements. While such charges are generally non-cash, they impact our results of operations and earnings per share and have been and may be material.

Risks Relating To Our Common Stock

Our insiders beneficially own a significant portion of our stock.

As of September 5, 2008, our executive officers, directors and affiliated persons beneficially own approximately 7.59% of our common stock. As a result, our executive officers, directors and affiliated persons will have significant influence to:

- elect or defeat the election of our directors;
- amend or prevent amendment of our articles of incorporation or bylaws;
- effect or prevent a merger, sale of assets or other corporate transaction; and
- affect the outcome of any other matter submitted to the stockholders for vote.

In addition, sales of significant amounts of shares held by our directors and executive officers, or the prospect of these sales, could adversely affect the market price of our common stock. Management s stock ownership may discourage a potential acquiror from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

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The anti-takeover effects of provisions of our charter, by-laws and of certain provisions of Delaware corporate law could deter, delay, or prevent an acquisition or other change in control of us and could adversely affect the price of our common stock.

Our amended certificate of incorporation, our by-laws and Delaware General Corporation Law contain various provisions that could have the effect of delaying or preventing a change in control of us or our management which stockholders may consider favorable or beneficial. These provisions include the following:

- We are authorized to issue blank check preferred stock, which is preferred stock that can be created and issued by the Board of Directors without prior stockholder approval, with rights senior to those of our common stockholders;

- We are subject to Section 203 of the Delaware General Corporation Law (the DGCL). In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder. A business combination includes a merger, sale of 10% or more of our assets and certain other transactions resulting in a financial benefit to the stockholder. For purposes of Section 203, an interested stockholder includes any person that is:
  - o the owner of 15% or more of the outstanding voting stock of the corporation;
  - o an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation, at any time within three years immediately prior to the relevant date; and
  - o an affiliate or associate of the persons defined as an interested stockholder.

Any one of these provisions could discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. These provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock.

Risk Factors Relating to the Debentures

The terms of the Indenture limit our ability to incur certain additional indebtedness.

The Indenture governing the Debentures contains negative covenants with respect to our incurring any indebtedness other than the Permitted Indebtedness, as defined in the Indenture and the Debentures, or any liens other than the Permitted Liens, as defined in the Indenture and the Debentures (see Description of Debentures Certain Definitions for description of Permitted Indebtedness and Permitted Liens). These provisions may limit our ability to access the capital markets or obtain sufficient capital for our business needs.

We may not have the funds necessary to repurchase the Debentures or pay amounts due when necessary, including with respect to the Interest Make-Whole premium, and our senior secured revolving credit facility contains limitations on our ability to pay the principal return in cash to holders of Debentures upon conversion or to repurchase the Debentures under certain circumstances.

Your ability to convert your Debentures into cash and shares of our common stock (if any) or to require us to repurchase your Debentures (either on September 18, 2008, or in connection with a designated event) is subject to limitations imposed by our senior secured revolving credit facility and by any limitations we may have in any other credit facilities or indebtedness we may incur in the future. Under our senior secured revolving credit facility and subject to an Intercreditor and Subordination Agreement

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we entered into with the lenders of our senior secured revolving credit facility and the guarantors of our Debentures, we are not permitted to pay the principal return in cash with respect to any redemption of Debentures without the prior approval of the lenders of our senior secured revolving credit facility.

With respect to any repurchase or redemption of the Debentures, you should be aware that the indebtedness under the senior secured revolving credit facility will become due and payable on August 9, 2011. If the senior indebtedness under the senior secured revolving credit facility is not paid upon maturity, we would be in default under such agreement and accordingly we would be prohibited from repurchasing or redeeming the Debentures. Moreover, we may have to refinance our senior secured revolving credit facility on or before its maturity and any new senior credit agreement we may enter into may have restrictions on our ability to repurchase or redeem the Debentures to a similar extent.

In addition, our ability to repurchase the Debentures or pay the principal return in cash, including with respect to the Interest Make-Whole premium, may be limited by law, by the Indenture, by the terms of other agreements relating to our senior indebtedness and, as mentioned above, by indebtedness and agreements that we may enter into in the future that may replace, supplement or amend our existing or future debt. If any of our senior indebtedness were to be accelerated, holders of the Debentures would not be entitled to receive any payments until all of our senior indebtedness had been paid in full.

Finally, we might not have sufficient funds available to repurchase or redeem the Debentures or pay the principal return in cash, including with respect to the Interest Make-Whole premium, at the Debentures maturity.

Although secured, the Debentures are subordinated to our senior indebtedness, and the guarantee of each subsidiary guarantor is similarly subordinated to its senior indebtedness.

The Debentures and the guarantees provided by certain of our subsidiaries, although secured, rank junior in right of payment to all of our existing and future senior indebtedness, as defined in the Indenture relating to the Debentures. This means that, upon any payment or distribution of our assets in a bankruptcy, insolvency, or similar proceeding, we will not be permitted to make any payments on the Debentures until all of our senior indebtedness has been paid in full. Likewise, upon any payment or distribution of assets of any subsidiary guarantor in a bankruptcy, insolvency or similar proceeding, that subsidiary guarantor will not be permitted to make any payments in respect of its guarantee in respect of the Debentures until all of its senior indebtedness has been paid in full.

In addition, we will also be prohibited from making any payments on the Debentures if any of our designated senior indebtedness is not paid when due or has been declared due and payable because of a default, and any subsidiary guarantor will be prohibited from making any payments under its guarantee if any designated senior indebtedness of such subsidiary guarantor or of us is not paid when due or has been declared due and payable because of a default. In addition, in the event of certain other defaults in respect of our designated senior indebtedness, we may be prohibited from making payments on the Debentures and, in the event of certain other defaults in respect of designated senior indebtedness of any subsidiary guarantor or of us, such subsidiary guarantor may be prohibited from making payments under its guarantee. See Description of the Debentures Ranking of the Debentures Subordination of the Debentures.

As of June 30, 2008, we and our subsidiaries had approximately $22 million of outstanding senior indebtedness, to which the Debentures are subordinated. In addition, the subsidiary guarantors guarantee all borrowings and amounts payable by us under our senior secured revolving credit facility.

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Such guarantees rank senior in right of payment to the guarantees of the subsidiary guarantors under the Debentures. Substantially all of our and our subsidiaries (including the subsidiary guarantors) assets secure our obligations under our senior secured revolving credit facility, which permits us to borrow up to $150,000,000. If we default on any payments required under our senior secured revolving credit facility, or if we fail to comply with other provisions governing these obligations such as the maintenance of certain required financial ratios, the senior lenders could declare all amounts outstanding, together with accrued and unpaid interest, immediately due and payable. If we are unable to repay amounts due, the lenders could proceed against the collateral securing the debt and we then may not have enough assets left to pay you or other holders of our Debentures.

The adjustment to the conversion rate upon the occurrence of certain types of fundamental transactions may not adequately compensate the holders for the lost option value of the Debentures as a result of such fundamental transactions.

If certain types of fundamental transactions occur on or prior to the date when the Debentures may be redeemed, you are entitled to receive, for each share of our common stock that would have been issuable upon conversion of the Debentures immediately prior to the occurrence of such fundamental transaction, the same kind and amount of securities, cash or property as you would have been entitled to receive upon the occurrence of such fundamental transaction if you had been, immediately prior to such fundamental transaction a holder of one share of common stock. The determination of the conversion price shall be appropriately adjusted. Although such adjustments are designed to compensate you for the lost option value of your Debentures as a result of certain types of fundamental transactions, the adjustment is only an approximation of such lost value based upon assumptions made on the date of this prospectus and may not adequately compensate you for such loss.

The subsidiary guarantees may be unenforceable or federal and state statutes may allow courts to void our Subordinated Guarantees and other laws may limit payments under the subsidiary guarantees.

The Debentures will be guaranteed by certain of our existing subsidiaries and may be guaranteed by certain future subsidiaries. If, during that time, a bankruptcy case or lawsuit is initiated with respect to a subsidiary guarantor, the debt represented by the subsidiary guarantee entered into by that subsidiary guarantor may be reviewed under federal bankruptcy law and comparable provisions of state fraudulent transfer laws. Under these laws, a guarantee could be voided, or claims in respect of a guarantee could be further subordinated to other indebtedness, guarantees and other liabilities of the subsidiary guarantor (which, depending on the amount of such indebtedness and other obligations, could reduce the subsidiary guarantor s liability on its subsidiary guarantee of the Debentures to zero), if, among other things, such subsidiary guarantor at the time it incurred the debt evidenced by the guarantee:

- received less than reasonably equivalent value or fair consideration for entering into the guarantee;
- was insolvent or rendered insolvent by reason of entering into the guarantee;
- was engaged in a business or transaction for which the subsidiary guarantor s remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts or contingent liabilities beyond its ability to pay such debts or contingent liabilities as they became due.

In addition, under these circumstances any payment by the subsidiary guarantor pursuant to its subsidiary guarantee could be voided and holders of the Debentures could be required to return those payments to the subsidiary guarantor or to a fund for the benefit of our creditors or creditors of the subsidiary guarantor.

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The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a subsidiary guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was at the time greater than the fair saleable value of all of its assets;

- if the present fair saleable value of its assets was at the time less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

There can be no assurance as to what standard a court would apply to evaluate the parties intent or to determine whether the applicable subsidiary guarantor was insolvent at the time of, or rendered insolvent upon consummation of, the applicable transaction or that, regardless of the standard, a court would not determine that the subsidiary guarantor was insolvent or rendered insolvent as a result of that transaction. Accordingly, we cannot assure you that the subsidiary guarantees of the Debentures, or any payments made under the subsidiary guarantees, will not be deemed to violate applicable bankruptcy, fraudulent transfer, or similar laws. Each subsidiary guarantee is limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable subsidiary guarantor, after giving effect to all of its other liabilities, without rendering the subsidiary guarantee, as it relates to such subsidiary guarantor, voidable under applicable laws relating to fraudulent conveyance or fraudulent transfer or similar laws.

Other laws, including corporate distribution laws, limit or may limit the amount that any subsidiary guarantor will be permitted to pay under its subsidiary guarantee of the Debentures. Such limitations could restrict, perhaps substantially, the amount that any subsidiary guarantor would be permitted to pay under its subsidiary guarantee, could prohibit that subsidiary guarantor from making any payments under its subsidiary guarantee or could possibly require that amounts paid by any subsidiary guarantor under its subsidiary guarantee of the Debentures be returned.

An active trading market for the Debentures may not develop.

The Debentures are a new issue of securities for which there is currently no public market. Although the Debentures issued are eligible for trading in The PORTAL Market,(SM) Debentures sold using this prospectus will no longer be eligible for trading in The PORTAL Market.(SM) The Debentures are not listed, and we do not intend to apply for listing of the Debentures, on any securities exchange or to arrange for quotation on any automated dealer quotation system. As a result, we do not know whether an active trading market will develop or be sustained for the Debentures. To the extent that an active trading market does not develop or is not sustained, the liquidity and trading prices for the Debentures may be harmed.

If the Debentures are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the price, and volatility in the price, of our shares of common stock, our performance and other factors.

We have not been advised by the initial purchasers or any other party that they intended to make a market in the Debentures. Any market-making activity that may be established by holders of the Debentures or any other party may be discontinued at any time, for any reason or for no reason, without notice. We cannot assure you that any firm or person will make a market in the Debentures. The liquidity of any market for the Debentures will depend upon the number of holders of the Debentures, our results of

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operations and financial condition, the market for similar securities, the interest of securities dealers in making a market in the Debentures and other factors. Even if a firm or person commit to make a market in the Debentures, an active or liquid trading market for the Debentures may not develop.

The price at which the Debentures may be purchased or sold could be significantly affected by the market price of our common stock, which may fluctuate significantly.

We expect that the pricing of the Debentures will be significantly affected by the market price of our common stock. Factors that could affect our common stock price include the following:

- fluctuations in our quarterly results of operations and cash flows;
- the public s reaction to our press releases, announcements and filings with the SEC;
- additions or departures of key personnel;
- changes in financial estimates or recommendations by research analysts;
- changes in the amount of indebtedness we have outstanding;
- changes in general conditions in the U.S. and international economy, financial markets, including changes in regulation affecting our business;
- the market price for crude oil and natural gas within the United States or worldwide;
- future sales of our equity or equity-linked securities.

In recent years, stock markets within the United States and worldwide have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market prices of our common stock and the Debentures.

Future sales of our common stock in the public market or the issuance of securities senior to our common stock could adversely affect the value of the Debentures and our ability to raise funds in new offerings.

Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could adversely affect the value of the Debentures and could impair our ability to raise capital through future offerings of equity or equity-related securities. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale will have on the value of the Debentures.

The Interest Make-Whole premium payable on the Debentures may not adequately compensate you for the lost option time value of your Debentures as a result of such designated event.

In the event that you are required to convert or we redeem all or any portion of the Debentures prior to the third anniversary of their issuance, we have agreed to pay the present value of all interest which would have accrued on the principal amount of the Debentures being converted or redeemed after such date of conversion or redemption as if no payment of such principal amount were made prior to the third anniversary of the issuance of the Debentures. Although such additional payment is designed to compensate you for the lost option time value of your Debentures as a result of such conversion, the amount of the Interest Make-Whole is only an approximation of such lost value and may not adequately compensate you for such loss.

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The conditional conversion feature of the Debentures could result in your receiving less than the value of the consideration into which a Debenture is convertible.

The Debentures are convertible only if specified conditions are met. If the specific conditions for conversion are not met, you will not be able to convert your Debentures, and you may not be able to receive the value of the consideration into which the Debentures would otherwise be convertible. The contingent conversion features could also adversely affect the value and the trading prices of the Debentures.

As a holder of Debentures, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.

Holders of our Debentures will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but will be subject to all changes affecting our common stock. You will have the rights with respect to our common stock only when we deliver shares of common stock, if any, to you upon conversion of your Debentures and, in limited cases, under the conversion rate adjustments applicable to the Debentures. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior your having given notice of your intent to convert all or a portion of your Debenture, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

The repurchase rights in the Debentures triggered by a designated event could discourage a potential acquiror.

The repurchase rights in the Debentures triggered by a change of control could discourage a potential acquiror. Upon a change of control we may be required to repurchase the Debentures at a premium that also may include the Interest Make-Whole premium. Potential acquirors may determine that the premium associated with this repurchase rights increase the costs of a potential acquisition of us beyond an amount that would make economic sense. As a result, such potential acquirors may be dissuaded from pursuing a transaction with us, even a friendly transaction.

The conversion rate of the Debentures may not be adjusted for all dilutive events that may occur.

The conversion rate of the Debentures is subject to adjustment for certain events including, but not limited to, the issuance of stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions or combinations of our common stock, certain distributions of assets, debt securities, capital stock or cash to holders of our common stock, among other things. The conversion rate will not be adjusted for other events, such as stock issuances for cash, which may adversely affect the trading price of the Debentures. See Description of the Debentures Conversion Rights Conversion rate adjustments. There can be no assurance that an event that adversely affects the value of the Debentures, but does not result in an adjustment to the conversion rate, will not occur.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference contain both historical and forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the

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Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements, written, oral or otherwise made, represent the Company s expectation or belief concerning future events. All statements, other than statements of historical fact, are or may be forward-looking statements. For example, statements concerning projections, predictions, expectations, estimates or forecasts, and statements that describe our objectives, future performance, plans or goals are, or may be, forward-looking statements. These forward-looking statements reflect management s current expectations concerning future results and events and can generally be identified by the use of words such as may, will, should, could, would, likely, predict, p continue, future, estimate, believe, expect, anticipate, intend, plan, foresee, and other similar words as statements in the future tense.

Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. The following important risks and uncertainties could affect our future results, causing those results to differ materially from those expressed in our forward-looking statements:

General economic and political conditions, including governmental energy policies, tax rates or policies and inflation rates;

The market price of, and demand for, oil and natural gas;

Our success in completing development and exploration activities;

Reliance on outside companies for drilling and development of our oil and gas properties;

Expansion and other development trends of the oil and gas industry;

Acquisitions and other business opportunities that may be presented to and pursued by us;

Our ability to integrate our acquisitions into our company structure; and

Changes in laws and regulations.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other factors, including unknown or unpredictable ones could also have material adverse effects on our future results.

The forward-looking statements included in this prospectus are made only as of the date set forth on the front of the document. We expressly disclaim any intent or obligation to update any forward-looking statements to reflect new information, subsequent events, changed circumstances or otherwise.

TAX CONSIDERATIONS

We are not providing any tax advice as to the acquisition, holding or disposition of the securities offered herein. In making an investment decision, investors are strongly encouraged to consult their own tax advisor to determine the U.S. federal, state and any applicable foreign tax consequences relating to their investment in our securities.

RATIO OF EARNINGS TO FIXED CHARGES

For purposes of computing the ratios of earnings to fixed charges, earnings consist of income before provision for income taxes plus fixed charges (excluding capitalized interest) and fixed charges consist of interest expensed and capitalized, amortization of debt discount and expense related to indebtedness. The following table sets forth our consolidated ratio of earnings to fixed charges for each of the periods indicated:

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	Six Months Ended June 30, 2008	2007	Fiscal Year Ended December 31, 2006	2005	2004	2003
Ratio of earnings to fixed charges		1.81				
Coverage deficiency	(38,406) (1)		(5,724) (1)	(3,777) (1)	(5,194) (1)	(4,036) (1)
Ratio of earnings to fixed charges and preferred dividends		1.81				
Coverage deficiency	(38,406) (1)		(5,724) (1)	(3,838) (1)	(5,300) (1)	(4,036) (1)

(1) Earnings were insufficient to cover fixed charges by amount noted as deficiency.

USE OF PROCEEDS

The selling securityholders will receive all proceeds from the sale of our securities in this offering. We will not receive any of the proceeds from the sale of our Debentures, Subordinated Guarantees or shares of common stock by the selling securityholders. We will pay all expenses (other than transfer taxes) of the selling securityholders in connection with this offering.

OFFERING

On June 18, 2008, we sold and issued $40,000,000 aggregate principal amount of our 10.75% Secured Subordinated Convertible Debentures due June 18, 2013 (the Original Debentures) to the purchasers thereof in a private placement that closed on that date. Our obligations under the Original Debentures were fully and unconditionally guaranteed by our subsidiaries, Teton North America LLC, Teton Piceance LLC, Teton DJ LLC, Teton Williston LLC, Teton Big Horn LLC, Teton DJCO LLC, (each, a Guarantor and together, the Guarantors) to the extent set forth in the Subordinated Guaranty and Pledge Agreement, dated as of June 18, 2008 (the Subordinated Guaranty) which was entered into in favor of Whitebox Advisors, LLC, as agent for the purchasers of the Original Debentures (the Representative).

Pursuant to Section 4.17(b) of the Securities Purchase Agreement dated as of June 9, 2008 which we entered into with the purchasers of the Original Debentures (the Purchase Agreement), the parties agreed to exchange the Original Debentures for exchanged debentures (the Exchanged Debentures) for the same aggregate principal amount on terms substantially identical to the Original Debentures, which debentures would be registered under the Securities Act under a registration statement that (i) has been declared effective by the Securities and Exchange Commission (the SEC), (ii) would ultimately meet the standards of eligibility of the Depository Trust Company (DTC), including with respect to registration on The PORTAL Market, and (iii) would ultimately be issued pursuant to an indenture in conformity with the Trust Indenture Act of 1939, as amended, and the rules thereunder.

In connection with the Purchase Agreement and the Original Debentures, we entered into an Intercreditor and Subordination Agreement (the Intercreditor Agreement) with JPMorgan Chase Bank, N.A. (JPMorgan Chase), as administrative agent, and the Representative, pursuant to which the liens of the Debenture holders on our assets were subordinated to the liens of JPMorgan Chase on such assets. We also entered into a Registration Rights Agreement on that date, pursuant to which we granted certain registration rights in connection with the Debentures, the Subordinated

Guaranty as well as the underlying Common Stock. We have filed the registration statement of which this prospectus is a part in accordance with such Registration Rights Agreement.

On September [__], 2008, we issued the Exchanged Debentures in an exchange transaction with the holders of the Original Debentures (the Exchange) pursuant to a Secured Subordinated Convertible Debenture Indenture (the Indenture) which we entered into on September [__], 2008, with each of our subsidiary Guarantors and the Bank of New York Mellon Trust Company., N.A., a national banking association (Bank of New York or the Trustee). Pursuant to the Indenture, Bank of New York agreed to act as Trustee with respect to the Exchanged Debentures and our obligations thereunder. Initially, the Trustee will also serve as the paying agent, conversion agent, and registrar with respect to the Indenture.

In connection with the Exchange and the closing of the Indenture, we entered into a letter agreement with each of the parties to the Purchase Agreement, which amended and supplemented the Purchase Agreement to, among other things, appoint Bank of New York as Representative, replacing Whitebox Advisors, LLC. We also entered into an amended and restated Intercreditor and Subordination Agreement with JPMorgan Chase and Bank of New York, and an amended and restated Subordinated Guaranty and Pledge Agreement, which reflect, among other things, the Exchange and the appointment of Bank of New York as successor in interest to Whitebox Advisors LLC as Representative and collateral agent.

The selling securityholders identified herein are offering for resale an aggregate $40,000,000 principal amount of our Exchanged Debentures, the related Subordinated Guarantees, as amended on September [__], 2008, as well as up to an aggregate of 8,411,937 shares of our common stock which are issuable to them upon conversion in full of the Exchanged Debentures. We refer to the Exchanged Debentures as the Debentures in this prospectus.

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DESCRIPTION OF THE DEBENTURES

The following description is only a summary of the material provisions of the Debentures, including the Indenture, the Registration Rights Agreement, the Intercreditor Agreement, as amended, and the Subordinated Guaranty, as amended. It does not purport to be complete. This summary is subject to and qualified by reference to all provisions of the Debenture, including the Indenture, to all provisions of the Registration Rights Agreement and to all provisions of the Intercreditor Agreement, as amended, and the Subordinated Guaranty, as amended. We urge you to read these agreements in their entirety because they, and not this description, define your rights as a holder of the Debentures. These documents are filed as exhibits to the registration statement of which this prospectus is a part. You may request copies of these documents by contacting us as set forth under the caption Where You Can Find More Information.

General

The Debentures:

Are secured, subordinated obligations;

are limited to $40,000,000 aggregate principal amount and contain a 90-day put option whereby the investors may elect to reduce their investment in the Debentures by up to a total of 25% of the face amount at the original purchase price;

bear interest at a rate of 10.75% per year, payable semi-annually in arrears, on January 1 and July 1 of each year, which commenced on July 1, 2008;

bear additional interest if we fail to comply with certain obligations under our Registration Rights Agreement or if there is an event of default;

contain a three year Interest Make-Whole provision by which you are entitled to be paid, in cash or registered shares of our common stock, at our option, and subject to certain conditions, the present value of all interest which would have accrued on the principal amount being converted or redeemed after the date of such conversion or redemption and through the third anniversary of the issue date;

are secured by a second lien on all of our assets in which our senior lender maintains a lien;

are convertible by you at any time, after the original issue date until the Debentures are no longer outstanding, into shares of our common stock at an initial conversion price equal to $6.50 per share;

contain a two-year no call provision and a provisional call thereafter if the price of the underlying shares of our common stock exceeds 150% percent of the conversion price, or $9.75, for any 20 trading days in a 30-trading day period;

are subject to repurchase by us, at your option, if a Change of Control Transaction occurs, at a purchase price equal to the sum of 103 percent of the principal amount being redeemed together with 100 percent of any accrued but unpaid interest and the three year interest make-whole premium, if any;

are subject to an increase in the number of Conversion Shares issuable following a Change of Control Transaction based upon the change of control date and the price of the our common stock; and

are due on June 18, 2013, unless earlier converted, redeemed or repurchased.

The Debentures are secured by a second lien on our assets and are further guaranteed by the Subordinated Guaranty. There is no sinking fund provided for in the Debentures.

The Debentures were issued in book-entry form only in denominations of $1,000 principal amount and whole multiples thereof. Transfers of Global Debentures shall be limited to transfers in whole, but not in part, to the Depository, its successors or their respective nominees. After the Debentures are issued pursuant to the Global Debentures, Certificated Debentures shall be transferred to all beneficial owners, as identified by the Depository, in exchange for their beneficial interests in Global Debentures if (i) the Depository notifies us that the Depository is unwilling or unable to continue as depositary for any Global Debenture and a successor Depository is not appointed by us within 90 days of such notice or (ii) an event of default has occurred and is continuing and the registrar has received a written request from the Depository to issue Certificated Debentures.

Payments on the Debentures

We maintain an office or agency in the United States where we will pay the principal and premium, if any, on the Debentures, and where the holders may present the Debentures for registration or transfer or exchange for other denominations, which is currently the corporate trust office of the Trustee at 101 Barclay Street, 7 East, New York, NY 10014, solely for presenting Debentures, or 601 Travis Street, 18th floor, Houston, TX 77002, for all other purposes.

With respect to Certificated Debentures, we will deposit funds with the Trustee or paying agent for payment by wire transfer of immediately available funds to the accounts specified by the holders of the Debentures or, if no such account is specified, for mailing a check to each holder s registered address. Payments in respect of Debentures represented by Global Debentures will be deposited by us with the Trustee or paying agent for payment by wire transfer of immediately available funds to the accounts specified by the holders of the Global Debentures.

Interest, Prepayment and Payment at Maturity

Interest

The Debentures bear interest at a rate of 10.75% per year on the aggregate unconverted and then-outstanding principal amount. Interest accrues from June 18, 2008, or from the most recent date to which interest has been paid or duly provided for. We will pay interest (including additional interest, if any) semi-annually, in arrears on January 1 and July 1 of each year, on each conversion date, each redemption date and on the maturity date. The first interest payment was made on July 1, 2008.

The Debentures contain a three year interest make-whole provision by which the holder is entitled to receive for all conversions or redemptions (other than pursuant to a Holder Optional Redemption see Optional Redemption at Election of the Holder below) of all or any portion of Debentures prior to the third anniversary of the Original Issue Date, or June 18, 2011, the present value of all accrued and unpaid interest from the date of such conversion or redemption through the third anniversary (the Interest Make-Whole). Such additional payment is designed to compensate the holders for the lost option value of the Debentures in the event you are required to convert or we redeem the Debentures. We may elect to pay the Interest Make-Whole premium either in cash or registered shares of our common stock. The value of each such share of stock shall be determined based on ninety percent of the lower of the (i) VWAP for such stock for the ten (10) Trading Days immediately prior to the date such payment is due, and (ii) the closing price of the stock on the day immediately preceding the conversion date or redemption date. The maximum number of shares of common stock potentially issuable as the Interest Make-Whole premium are included in the registration statement of which this prospectus is a part, and may be resold by the selling securityholders pursuant to this prospectus.

However, payment of the Interest Make-Whole may only be made in shares of our common stock if each of certain Equity Conditions have been met (unless such conditions are waived). Additionally, unless and until we receive any shareholder approval necessary under Rule 713 of the American Stock Exchange Company Guide governing certain issuances of securities, or any similar rule of any other applicable trading market, the value of such shares of common stock may not be less than the closing price of our common stock on the date of execution of the Purchase Agreement, or $5.43 on June 9, 2008. If we do not receive such necessary stockholder approval, payment of the Interest Make-Whole may only be made in cash.

Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months. We will pay interest on the Debentures to the person who is the holder on the record date. Any payment required to be made on any day that is not a business day will be made on the next succeeding business day, without additional interest. A business day is any day except Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or obligated to close. Late payments shall incur a late fee equal to the lesser of 18% per annum or the maximum rate allowed by law on the unpaid interest for the period from the date the initial payment was due, through and including the date of actual payment. If we do not meet the current public information requirements as in effect under Rule 144 of the Securities Act as they may exist from time to time in respect of the shares of common stock issuable upon conversion, and a beneficial owner of a Debenture cannot freely resell such shares on a trading market pursuant to Rule 144 for a period of 3 months, then, as of the first day following such public information failure, interest shall accrue at an interest rate equal to 12% per annum until we satisfy the current public information requirement such that a beneficial owner of a Debenture is able to freely resell all the such shares.

In the case of a Global Debenture, interest payable on any applicable payment date will be paid by wire transfer of same-day funds to the Depository, with respect to that portion of such Global Debenture held for its account by Cede & Co. for the purpose of permitting such party to credit the interest received by it in respect of such Global Debenture to the accounts of the beneficial owners thereof.

Prepayment

We may not prepay any portion of the principal amount of the Debentures without the prior written consent of the holders.

Payment at Maturity

On the maturity date, each holder will be entitled to receive on such date $1,000 in cash for each $1,000 in principal amount of Debentures, together with accrued and unpaid interest (including additional interest, if any) through, but not including, the maturity date. With respect to the Debentures, principal and interest will be payable at our office or agency maintained for that purpose, which initially will be the corporate trust office of the Trustee in Houston, Texas.

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Ranking of the Debentures

Subordination of the Debentures

Although secured, the Debentures are:

- subordinated in right of payment, as provided in the Indenture or the Intercreditor Agreement to our senior secured revolving credit facility; and

- senior in right of payment to all of our existing and future indebtedness subordinated to the Debentures.

The Debentures are effectively subordinated to all of our existing and future senior secured indebtedness to the extent of the assets securing such indebtedness, and to the senior secured indebtedness of our subsidiaries. Our subsidiaries are separate and distinct legal entities.

Our right to receive any assets of our existing subsidiary and any future subsidiaries upon their liquidation or reorganization, and therefore, our right to participate in those assets, will be structurally subordinated to the claims of that subsidiary s senior secured creditors.

Except for the Optional Redemption at the Election of the Holder, we may not make any payment of principal on the Debentures or purchase or otherwise acquire the Debentures if our senior secured revolving credit facility is outstanding. Although our senior secured revolving credit facility matures before the Debentures mature, we anticipate that we will extend or refinance our senior secured revolving credit facility prior to the maturity of the Debentures and that such extension or refinance will contain some sort of payment restrictions on the Debentures, notwithstanding the fact that any such extension or refinance will require the consent of holders of the Debentures.

In the event of our bankruptcy, dissolution, or reorganization, holders of our outstanding senior secured debt, if any, may receive more, ratably, than holders of the Debentures. These subordination provisions will not prevent the occurrence of any event of default under the Indenture.

We are obligated to pay reasonable compensation to the Trustee. We will indemnify the Trustee against any losses, liabilities or expenses incurred by it in connection with its duties. The Trustee s claims for such payments will be senior to the claims of holders of the Debentures.

Prohibition on Incurrence of Additional Debt (except as permitted)

As of June 30, 2008, we had senior secured debt of approximately $22 million outstanding. Our senior secured revolving credit facility permits us to borrow up to $150,000,000, assuming there are sufficient assets to support such level of borrowing and no financial covenants are broken in so doing. The Indenture limits the amount of additional indebtedness, both senior as well as subordinated, that we may incur in the future, as described in Covenants below.

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Guarantees

During the guarantee period, the Debentures will be guaranteed by each of our current and future subsidiaries pursuant to a Subordinated Guaranty and Pledge Agreement. The subsidiary guarantees are joint and several obligations of the subsidiary guarantors. The obligations of each subsidiary guarantor under its subsidiary guarantee are subordinated and junior in right of payment to the prior payment in full of existing and future senior indebtedness of such subsidiary guarantor substantially to the same extent as the Debentures are subordinated to all of our existing and future senior indebtedness. The subsidiary guarantors also guarantee all obligations under our senior secured revolving credit facility, and each subsidiary guarantor granted a security interest in all or substantially all of its assets to secure the obligations under the senior secured revolving credit facility.

The obligations of each subsidiary guarantor are limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of such subsidiary guarantor and after giving effect to any collections or payments from or payments made by or on behalf of any other subsidiary guarantor in respect of the obligations of such other subsidiary guarantor under its subsidiary guarantee or pursuant to its contribution obligations under the Indenture, will result in the obligations of such subsidiary guarantor under its subsidiary guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. See Risk Factors Risks Related to the Debentures The subsidiary guarantees may be unenforceable or federal and state statutes may allow courts to void our Subordinated Guarantees and other laws may limit payments under the subsidiary guarantees. Each subsidiary guarantor that makes a payment or distribution under a subsidiary guarantee shall be entitled to a contribution from each other subsidiary guarantor in a pro rata amount, based on the net assets of each subsidiary guarantor determined in accordance with GAAP.

The Subordinated Guaranty and Pledge Agreement is an integral component of the Indenture. As a result, all of our subsidiaries are (unless released in accordance with the terms of the Indenture or the Subordinated Guaranty and Pledge Agreement) be a subsidiary guarantor for all purposes of the Indenture. Thus, each subsidiary guarantee will be a continuing guarantee and will (a) remain in full force and effect until payment of all of the obligations covered thereby, except as provided below, (b) be binding upon each subsidiary guarantor and (c) inure to the benefit of and be enforceable by the Trustee, holders of the Debentures and their successors, transferees and assigns. The Indenture provides that if the Debentures thereunder are discharged in accordance with the terms of the Indenture, then each subsidiary guarantor shall be released and discharged of its guarantee obligations in respect of the Indenture and the Debentures.

Conversion Rights

General

At any time after the Original Issue Date until the Debentures are no longer outstanding, the principal amount of the Debentures is convertible, in whole or in part, into shares of our common stock at the option of the holders, at any time and from time to time. The initial conversion price is $6.50, subject to conversion rate adjustments.

Holders may effect conversions by delivering to the conversion agent a Notice of Conversion, specifying therein the principal amount of the Debenture to be converted and the date on which such conversion shall be effected. If no conversion date is specified in a Notice of Conversion, the conversion date shall be the date that such Notice of Conversion is deemed delivered.

No fractional shares or scrip representing fractional shares shall be issued upon the conversion of a Debenture. As to any fraction of a share which a holder would otherwise be entitled to purchase upon such conversion, then we shall, at our election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Conversion Price or round up to the next whole share.

A holder is not required to physically surrender its Debenture to the conversion agent unless the entire principal amount of the Debenture has been so converted, and all accrued and unpaid interest thereon has been paid. Conversions have the effect of lowering the outstanding principal amount of the Debenture in an amount equal to the applicable conversion, and therefore following conversions, the unpaid and unconverted principal amount of a Debenture may be less than the amount stated on the face thereof. We, the conversion agent and the holders will each maintain records showing the principal amount(s) converted and the date of such conversion(s). We may object to a Notice of Conversion, promptly but in any event within 3 business days of delivery of such Notice of Conversion. Absent manifest error, the holder s records showing the principal amount(s) converted and the date of such conversion(s) shall be determinative.

Limitation on Conversion

We will not affect any conversion of a Debenture, and a holder shall not have the right to convert any portion of a Debenture, to the extent that after giving effect to the conversion set forth on the applicable Notice of Conversion, the holder (together with its affiliates, and any other person or entity acting as a group together with the holder or any of the holder s affiliates) would beneficially own in excess of the 4.99% of the number of shares of our common stock outstanding immediately after giving effect to the issuance of shares issuable upon conversion of the Debenture held by that holder. A holder may, upon at least 61 days notice to us, increase or decrease this beneficial ownership limitation percentage from 4.99%, as long as it does not exceed 9.99% of the number of shares of our common stock outstanding immediately after giving effect to the issuance of shares issuable upon conversion of the Debenture held by that holder.

For purposes of the foregoing, the number of shares of our common stock beneficially owned by the holder and its affiliates will include the number of shares of our common stock issuable upon conversion of the Debenture in respect of which the determination of such sentence is being made, but shall exclude the number of shares of our common stock which would be issuable upon (i) conversion of the remaining, nonconverted portion of any Debenture beneficially owned by the holder or any of its affiliates and (ii) exercise or conversion of the unexercised or nonconverted portion of any of our other securities subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this calculation, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. In determining the number of outstanding shares of our common stock, the holder may rely on the number of outstanding shares of our common stock as reflected in (x) our most recent Form 10-K, 10-Q or Form 8-K, as the case may be, (y) a more recent public announcement by us or (z) a more recent notice by us or our transfer agent setting forth the number of shares of our common stock outstanding. For any reason at any time, upon the written or oral request of the holder, we will within two trading day confirm orally and in writing to the holder the number of shares of our common stock then outstanding. In any case, the number of outstanding shares of our common stock shall be determined after giving effect to the conversion or exercise of our securities, including any Debenture, by the holder or its affiliates since the date as of which such number of outstanding shares of our common stock was reported.

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A holder of a Debenture is not entitled to any rights of a holder of our common stock until such holder has converted its Debenture into common stock, and only to the extent such Debenture is deemed to have been converted into common stock pursuant to the terms of the Indenture and Debenture.

We will be deemed to have satisfied our obligation to pay the principal amount of the Debentures so converted and our obligation to pay accrued and unpaid interest attributable to the period from the most recent interest payment date through the conversion date by delivering the number of shares of common stock issuable on conversion to the Trustee or conversion agent.

Conversion rate adjustments

Stock Dividends and Stock Splits

If we, at any time while the Debentures are outstanding: (i) pay a stock dividend or otherwise make a distribution or distributions payable in shares of common stock on shares of common stock or any Common Stock Equivalents, (ii) subdivide outstanding shares of common stock into a larger number of shares, (iii) combine, including through a reverse stock split, outstanding shares of common stock into a smaller number of shares or (iv) issue, in the event of a reclassification of shares of the common stock, any shares of our capital stock, then the conversion price will be adjusted by multiplying the conversion price by a fraction, the numerator of which shall be the number of shares of common stock (excluding any treasury shares of the Company) outstanding immediately before such event and the denominator of which shall be the number of shares of common stock outstanding immediately after such event.

Subsequent Rights Offerings

If we, at any time while the Debentures are outstanding, issue rights, options or warrants to all holders of common stock (and not to holders) entitling them to subscribe for or purchase shares of common stock at a price per share that is lower than the VWAP on the record date for the determination of stockholders entitled to receive such rights, options or warrants, then the conversion price shall be multiplied by a fraction, the denominator of which shall be the number of shares of the common stock outstanding on the date of issuance of such rights or warrants plus the number of additional shares of common stock offered for subscription or purchase underlying such rights or warrants, and the numerator of which shall be the number of shares of the common stock outstanding on the date of issuance of such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such VWAP. Such adjustment shall be made whenever such rights or warrants are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights, options or warrants.

Pro Rata Distributions

If we, at any time while the Debentures are outstanding, distribute to all holders of common stock (and not to holders) evidence of our indebtedness or assets (including cash and periodic or extraordinary cash dividends) or rights or warrants to subscribe for or purchase any security, then in each such case the conversion price shall be adjusted by multiplying such conversion price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction, the denominator of which shall be the VWAP determined as of the record date mentioned above, and the numerator of which shall be such VWAP on such record date less the then-fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the common stock as determined by our Board of Directors in good faith. In either case the adjustments shall be described in a statement delivered to the holder describing the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of common stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

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Fundamental Transactions

If, at any time while the Debentures are outstanding, (i) we effect any merger or consolidation with or into another Person, (ii) we effect any sale of all or substantially all of our assets in one transaction or a series of related transactions, (iii) any tender offer or exchange offer (whether by us or another Person) is completed pursuant to which holders of common stock are permitted to tender or exchange their shares for other securities, cash or property, or (iv) we effect any reclassification of the common stock or any compulsory share exchange pursuant to which the common stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a Fundamental Transaction), then, upon any subsequent conversion of a Debenture, the holder shall have the right to receive, for each Conversion Share that would have been issuable to it upon conversion of the Debentures immediately prior to the occurrence of such Fundamental Transaction, the same kind and amount of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of one share of common stock (the Alternate Consideration). For purposes of any such conversion, the determination of the conversion price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one (1) share of common stock in such Fundamental Transaction, and we will apportion the conversion price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of common stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of a Debenture following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the holder a new debenture consistent with the foregoing provisions and evidencing the holder s right to convert such debenture into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is affected shall include terms requiring any such successor or surviving entity to comply with these provisions insuring that the Debenture (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

Change of Control Transaction

If the Fundamental Transaction described above is also a Change of Control Transaction, then the holder shall have the right to cause us to redeem the Debentures or to have an adjustment of the conversion price and/or Conversion Shares, as set forth below. No later than 20 trading days prior to the consummation of a Change of Control, but not prior to the public announcement of such Change of Control, we (or at our request, the Trustee, in our name and at our expense) shall deliver written notice thereof (the text of which we will prepare) to the holders and post such notice on the systems of the Depository. Such notice shall state:

(i) the events causing the Change of Control;

(ii) the Change of Control date or anticipated date;

(iii) the purchase price and whether that price will be paid in cash, shares of common stock, or a combination of cash and shares of common stock;

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(iv) the name and address of the paying agent and conversion agent;

(v) that the Debentures must be surrendered to the paying agent to collect payment of the Change of Control redemption price, if applicable; and

(vi) if applicable, the expected determination of the adjustment to the conversion price pursuant to the Indenture.

Simultaneously with the Change of Control notice, we shall issue a press release and timely file a Form 8-K containing the information contained in the Change of Control notice.

Fundamental Change Consequences and Change of Control

At any time during the period beginning after a holder s receipt of a Change of Control notice and ending on the date that is five (5) trading days subsequent to the Change of Control date as set forth in the Change of Control notice, such holder may require us to redeem all or any portion of such holder s Debenture by delivering written notice thereof to the Trustee, which Change of Control redemption notice shall indicate the principal amount the holder is electing to redeem, the certificate number of the Debenture which the holder will deliver to be redeemed, if Certificated Debentures have been issued, or notice compliant with the relevant DTC procedures if the Debentures are not certificated.

Change of Control Redemption Price and Interest Make-Whole

Any principal amount of the Debenture subject to redemption shall be redeemed by us in cash at a price equal to the sum of 103% of the principal amount being redeemed together with 100% of any accrued but unpaid interest thereon and the Interest Make-Whole, if any. We shall make payment of the Change of Control redemption price concurrently with the consummation of such Change of Control if such a Change of Control redemption notice is received prior to the consummation of such Change of Control or within 5 trading days after we receive the notice otherwise.

Adjustment to Conversion of Shares for a Change in Control

In connection with a Change of Control, we will increase the number of Conversion Shares issuable upon conversion of the Debenture by a number of additional shares (the Additional Shares) for each $1,000 principal amount of Debentures when converted provided that (A) such increase in Conversion Shares shall not take place if such Change of Control is not consummated and (B) we shall issue Conversion Shares (without such increase) on or prior to the fifth (5th) trading day following the conversion date and the Additional Shares will be issued after the later to occur of (x) the fifth (5th) trading day following the Change of Control Date and (y) the fifth (5th) trading day following the relevant conversion date. On and after the Change of Control Date, holders entitled to receive Additional Shares shall receive the kind and amount of securities (of ours or of another issuer), cash and other property receivable upon such Change of Control by a holder of the number of shares of common stock into which the Debenture was convertible immediately prior to such Change of Control, after giving effect to any adjustment event, based on the number of Additional Shares set forth above.

The number of Additional Shares will be determined by reference to the table below, based on the Change of Control date and the price of the common stock (the Stock Price). If the consideration for the common stock consists solely of cash, then the Stock Price will be the cash amount paid per share of the common stock. Otherwise, the Stock Price will be the average of the VWAPs for the 5 consecutive trading days immediately preceding the Change of Control date.

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The following table sets forth the number of Additional Shares per $1,000 principal amount of Debentures to be added to the Conversion Shares issuable in connection with the Change of Control:
The Stock Prices set forth in the table will be adjusted as of any date on which the conversion price is adjusted. The adjusted Stock Prices will equal the Stock Prices applicable immediately prior to the adjustment divided by a fraction, the numerator of which is the conversion price immediately prior to the adjustment to the conversion price and the denominator of which is the conversion price as so adjusted.

	Stock Price									
	$5.47	$6.00	$6.50	$7.00	$7.50	$8.00	$8.50	$9.00	$9.50	$10.00
Additional Shares										
Pricing Date	28.971	24.377	21.095	18.334	15.947	13.859	12.017	10.381	8.919	7.607
Pricing Date + 1 Year	28.971	18.21	15.626	13.636	11.935	10.448	9.136	7.969	6.926	5.987
Pricing Date + 2 Years	28.971	15.571	8.783	7.608	6.695	5.899	5.196	4.572	4.014	3.511
Pricing Date + 3 Years	28.971	12.821	4.3915	3.804	3.3475	2.9495	2.598	2.286	2.007	1.7555

The exact Stock Price and Change of Control date may not be set forth in the table, in which case:
(A) if the Stock Price is between two Stock Prices in the table or the Change of Control date is between two Change of Control dates in the table, the number of Additional Shares will be determined by straight-line interpolation between the Additional Share amounts set forth for the higher and lower Stock Prices and the two Change of Control dates, as applicable, based on a 365-day year;
(B) if the Stock Price is in excess of $10.00 per share (subject to adjustment in the same manner as the Stock Price), no Additional Shares will be added to the Conversion Shares; and
(C) if the Stock Price is less than or equal to $5.47 per share (subject to adjustment in the same manner as the Stock Price), no Additional Shares will be added to the Conversion Shares.

Optional Redemption at Election of Company

At any time after the two year anniversary of the Original Issue Date, provided that the VWAP of the common stock has been at least 150% of the conversion price for any 20 out of 30 consecutive trading days, we may deliver notice of our irrevocable election to redeem some or all of the then-outstanding principal amount of the Debentures for cash in an amount equal to the optional redemption amount on the 20th trading day following the optional redemption notice date. The amount is payable in full on the optional redemption date. Our decision to effect an optional redemption shall be applied to all of the holders of the then-outstanding Debentures. We may effect this redemption if all of the Equity Conditions have been met during the applicable period.
The payment of cash or issuance of common stock, pursuant to an optional redemption, shall be payable on the optional redemption date.

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Optional Redemption at Election of the Holder

At any time prior to the three-month anniversary of the Original Issue Date (i.e., September 18, 2008) a holder may deliver a notice to us of its election to require us to redeem for cash the product of up to (a) 25% of the original face principal amount of the Debenture and (b) the Holder Optional Redemption Amount, which is the sum of 100% of the then-outstanding principal amount of the Debenture, accrued and unpaid interest, and all liquidated damages and other amounts due, if any, in respect of the Debentures. This amount will be paid on the 20th trading day following such holder s notice. We will honor all Notices of Conversion tendered from the time of delivery of the holder s notice regarding its optional redemption through the date all amounts owing thereon are due and paid in full.

Covenants

As long as any portion of the Debentures remain outstanding, unless the holders of at least 67% in principal amount of the then-outstanding Debentures shall have otherwise given prior written consent, we shall not, and shall not permit any of our subsidiaries to, directly or indirectly:

(1) other than Permitted Indebtedness and except as provided in the Amended and Restated Credit Agreement that we entered into with our senior secured lender (the Credit Agreement), enter into, create, incur, assume, guarantee or suffer to exist any indebtedness for borrowed money of any kind, including, but not limited to, a guarantee, on or with respect to any of its property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom; provided, that, any such additional Indebtedness effected through the Credit Agreement, when combined with other existing Indebtedness of the Credit Agreement, shall not exceed $150,000,000 in aggregate principal amount;

(2) other than Permitted Liens and except as provided in the Credit Agreement, enter into, create, incur, assume or suffer to exist any Liens of any kind, on or with respect to any of its property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom; provided, that, any such additional Liens effected through the Credit Agreement, when combined with other existing Liens under the Credit Agreement, shall not secure Indebtedness with an aggregate principal amount in excess of $150,000,000;

(3) amend our charter documents, including, without limitation, our certificate of incorporation and bylaws, in any manner that materially and adversely affects any rights of the holder;

(4) repay, repurchase or offer to repay, repurchase or otherwise acquire more than an amount of shares of our common stock or Common Stock Equivalents equal to $200,000, other than as to (i) the Conversion Shares as permitted or required under the Transaction Documents and (ii) repurchases of common stock or Common Stock Equivalents of departing officers and directors, provided that such repurchases shall not exceed an aggregate of $100,000 for all officers and directors during the term of the Debentures;

(5) repay, repurchase or offer to repay, repurchase or otherwise acquire any Indebtedness, other than (i) the Debentures if on a pro-rata basis or (ii) regularly scheduled principal and interest payments as such terms are in effect as of the Original Issue Date, provided that such payments shall not be permitted if, at such time, or after giving effect to such payment, any event of default exists or occurs (unless such payments are required to be made under the Credit Agreement and are permitted to be made under the Intercreditor Agreement);

(6) pay cash dividends or distributions on any equity securities;

(7) enter into any transaction with any affiliate which would be required to be disclosed in any public filing with the SEC, unless such transaction is otherwise permitted under the Transaction Documents and are upon fair and reasonable terms no less favorable to it than it would obtain in a comparable arm s-length transaction with a Person not an affiliate; or

(8) enter into any agreement with respect to any of the foregoing.

Events of Default; Notice, Remedies and Waiver

Event of Default

In the event of default with respect to the Debentures, including, among other things:

(a) Any default in the payment of (A) the principal amount of any Debenture or (B) interest, liquidated damages other amounts owing to a holder on any Debenture, as and when the same shall become due and payable (whether on a conversion date, any redemption date or the maturity date or by acceleration or otherwise);

(b) Our (including our guarantors) failure to observe or perform any other covenant or agreement contained in the Debentures, except under certain circumstances;

(c) Our failure to comply with our obligations to convert any Debentures into shares of our common stock upon exercise of a holder s conversion right;

(d) any representation or warranty contained in the Debenture purchase agreement we entered into with the initial purchasers of the Debentures was, at the time made, inaccurate;

(e) a default or event of default (subject to any grace or cure period);

(f) certain events of bankruptcy affecting us or our significant subsidiaries;

(g) our (including our subsidiary) default on any of our obligations under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument under which there may be issued, or by which there may be secured or evidenced, any indebtedness for borrowed money or money due under any long term leasing or factoring arrangement that (a) involves an obligation the greater of $1,000,000 or five percent (5%) of the then applicable borrowing base in our senior secured revolving credit facility, whether such indebtedness now exists or is hereafter created, and (b) results in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable;

(h) our common stock is not eligible for listing or quotation for trading on a trading market and shall not be eligible to resume listing or quotation for trading thereon within 10 trading days;

(i) we do not meet the current public information requirements as in effect under Rule 144 as they may exist from time to time in respect of the Conversion Shares and the holder

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cannot freely resell the Conversion Shares on a trading market pursuant to Rule 144 for a period of 3 months;

(j) any of the Security Documents cease to be in full force and effect (including failure to create a valid and perfected second priority lien on and security interest in all the Collateral (as defined in the Security Documents) at any time for any reason.

Remedies

Subject to the Intercreditor Agreement, if an event of default occurs, other than a bankruptcy event, the outstanding principal amount of the Debentures, plus accrued but unpaid interest, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become, at the election of holders of at least 51% in aggregate principal amount of the Debentures, immediately due and payable in cash at the Mandatory Default Amount. Such declaration may be made by the holders of at least 51% in aggregate principal amount of the Debentures by written notice to us (and to the Trustee, if the notice is given by the holders), or by the Trustee at the request of the holders. An event of default that occurs as a result of a bankruptcy event of ours or a significant subsidiary will cause the principal and interest of the Debentures to become automatically due and payable without any action required on behalf of the holders or the Trustee. Commencing upon the occurrence of any event of default the interest rate on the Debentures shall accrue at an interest rate equal to the lesser of 18% per annum or the maximum rate permitted under applicable law. Upon the payment in full of the Mandatory Default Amount, the holders shall promptly surrender the Debentures to or as directed by the Trustee or to us. In connection with such acceleration described herein, the holders need not provide, and we hereby waive, any presentment, demand, protest or other notice of any kind, and the holders may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law. Such acceleration may be rescinded and annulled by the holders at any time prior to payment hereunder and the holders shall have all rights as a holder of the Debentures until such time, if any, as the holders receive full payment. No such rescission or annulment shall affect any subsequent event of default or impair any right consequent thereon.

If an event of default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Debentures or to enforce the performance of any provision of the Debentures or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Debentures or does not produce any of them in the proceeding. The Trustee s remedies are limited by the Intercreditor Agreement entered into with our senior secured lender.

The holders of at least 67% of aggregate principal amount of the outstanding Debentures may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of holders of Debentures not joining in the giving of such direction, and may take any other action it deems proper that is not inconsistent with any such direction received from holders of Debentures. The foregoing rights and remedies are limited by the terms of the Intercreditor Agreement entered into with our senior secured lender.

Consolidation, Merger and Sale of Assets

We may, without the consent of the holders of any of the outstanding Debentures, consolidate with or merge with or into any Person, or sell, convey, transfer or otherwise dispose of or lease all or substantially all of our assets as an entirety or substantially an entirety, in one transaction or a series of related transactions, to any Person; provided, that either (x) we are the continuing Person or (y) the resulting, surviving or transferee Person is a corporation, partnership, limited liability company or trust organized and validly existing under the laws of the United States of America, any state thereof or the District of Columbia and expressly assumes by supplemental indenture all of our obligations under the Indenture and the Debentures and the Registration Rights Agreement; immediately after giving effect to the transaction, no event of default and no default has occurred and is continuing; we deliver to the Trustee an officers certificate and an opinion of counsel, each stating that the consolidation, merger, sale, conveyance, transfer, other disposition or lease and the supplemental indenture (if any) comply with the Indenture; and, our guarantors will have by supplemental indenture confirmed that its guarantee will apply to its obligations under the Indenture and the Debenture and related Guarantee.

Upon the consummation of any transaction effected in accordance with these provisions, if we are not the continuing Person, the resulting, surviving or transferee Person will succeed to, and be substituted for, and may exercise every right and power of, us under the Indenture and the Debentures with the same effect as if such successor Person had been named as us in the Indenture. Upon such substitution, except in the case of a lease, unless the successor is one or more of our subsidiaries, we will be released from our obligations under the Indenture and the Debentures.

Form, Denomination and Registration

The debentures were issued in fully registered form without interest coupons and in denominations of $1,000 principal amount and multiples of $1,000.

Global Debenture, Book-Entry Form

Debentures are evidenced by one or more Global Debentures. We deposited the Global Debenture or Debentures with DTC and registered the Global Debentures in the name of Cede & Co. as DTC s nominee. Except as set forth below, a Global Debenture may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Beneficial interests in a Global Debenture may be held through organizations that are participants in DTC (called participants). Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in clearing house funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. As a result, the ability to transfer beneficial interests in the Global Debenture to such persons may be limited.

Beneficial interests in a Global Debenture held by DTC may be held only through participants, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant, either directly or indirectly (called indirect participants). So long as Cede & Co., as the nominee of DTC, is the registered owner of a Global Debenture, Cede & Co. for all purposes will be considered the sole holder of such Global Debenture. Except as provided below, owners of beneficial interests in a global debenture will:

- not be entitled to have certificates registered in their names;
- not receive physical delivery of certificates in definitive registered form; and
- not be considered holders of the Global Debenture.

We will pay interest, and additional amounts, if any, on and the redemption price and the repurchase price of, a Global Debenture to Cede & Co., as the registered owner of the Global Debenture, by wire transfer of immediately available funds on each interest payment date or the redemption or repurchase date, as the case may be. Neither we, the trustee nor any paying agent will be responsible or liable:

for the records relating to, or payments made on account of, beneficial ownership interests in a Global Debenture; or

for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

Neither we, the trustee, registrar, paying agent nor conversion agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of Debentures, including the presentation of debentures for conversion, only at the direction of one or more participants to whose account with DTC interests in the Global Debenture are credited, and only in respect of the principal amount of the Debentures represented by the Global Debenture as to which the participant or participants has or have given such direction.

DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York, and member of the Federal Reserve System;

a clearing corporation within the meaning of the Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants. Participants include securities brokers, dealers, banks, trust companies and clearing corporations and other organizations. Some of the participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

DTC has agreed to the foregoing procedures to facilitate transfers of interests in a Global Debenture among participants. However, DTC is under no obligation to perform or continue to perform these procedures, and may discontinue these procedures at any time.

We will issue Debentures in definitive certificated form if DTC notifies us that it is unwilling or unable to continue as depositary or DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within 90 days. In addition, beneficial interests in a Global Debenture may be exchanged for definitive Certificated Debentures upon request by or on behalf of DTC in accordance with customary procedures. The Indenture permits us to determine at any time and in our sole discretion that Debentures shall no longer be represented by Global Debentures. DTC has advised us that, under its current practices, it would notify its participants of our request, but only withdraw beneficial interests from the Global Debentures at the request of each DTC participant. We would issue definitive certificates in exchange for any such beneficial interests withdrawn.

Calculations in Respect of Debenture

Except as otherwise provided, we will be responsible for making all calculations called for under the Debentures. These calculations include, but are not limited to, determinations of the sale price of our common stock, accrued interest payable on the Debentures, the Interest Make-Whole payment, whether in cash or shares of common stock, and the conversion rate and conversion price.

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Discharge of the Indenture

We may satisfy and discharge our obligations under the Indenture by delivering to the Trustee all outstanding Debentures for cancellation or by irrevocably depositing, prior to the applicable date on which such payment is due and payable, with the Trustee or the paying agent (if the paying agent is not us or any of our affiliates) cash or other consideration as applicable under the terms of the Indenture sufficient to pay all amounts due and owing on all outstanding Debentures on the maturity date or the Change of Control redemption date and by paying to the Trustee all other sums payable under the Indenture.

We may exercise its satisfaction and discharge option with respect to the Debentures only if:

(1) no default or event of default with respect to the Debentures shall exist on the date of such deposit;

(2) such deposit shall not result in a breach or violation of, or constitute a default or event of default under the Indenture or any other agreement or instrument to which are a party or bound; and

(3) we have delivered to the Trustee an officers certificate and an opinion of counsel (which may rely upon such officers certificate as to the absence of defaults and Events of Default and as to any factual matters), each stating that all conditions precedent provided for herein relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, our obligations to the Trustee shall survive and, if money shall have been deposited with the Trustee shall survive and we shall be required to make all payments and deliveries required, as the case may be, irrespective of any prior satisfaction and discharge until the Debentures have been paid in full.

Governing Law

The Debentures and the Indenture are governed by, and construed in accordance with, the laws of the State of New York.

Information Concerning the Each of Trustee and Common Stock Transfer Agent and Registrar

We have appointed The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America, as the Trustee under the Indenture, as paying agent, conversion agent, Debentures registrar and custodian for the Debentures. The Trustee or its affiliates may also provide other services to us in the ordinary course of their business.

Computershare Inc. is the transfer agent and registrar for our common stock.

Registration Rights

We entered into a Registration Rights Agreement with the initial purchasers of the Debentures. We have filed a registration statement on Form S-3, of which this prospectus is a part, with the SEC covering the Debentures, the Subordinated Guarantees and the common stock, if any, issuable pursuant to the Debentures. We will use our commercially reasonable efforts to cause the registration statement to

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become effective within 90 days of the Original Issuance Date of the Debentures (i.e., September 16, 2008), or 120 days in the event of a full review by the SEC (i.e., October 16, 2008). We will use our commercially reasonable efforts to keep the registration statement effective until the date that all registrable securities covered by such registration statement have been sold, or may be sold without volume or manner-of-sale restrictions pursuant to Rule 144, without the requirement for us to be in compliance with the current public information requirement under Rule 144, or all of the Debentures have been redeemed or repurchased.

When we use the term registrable securities in this section, we are referring to:

- the Debentures, including the related Subordinated Guarantees;
- the shares of common stock, if any, issuable upon conversion of the Debentures; and
- the shares of common stock issuable in the event that we choose to pay the Interest Make-Whole premium in shares of common stock.

We may suspend the use of the prospectus under certain circumstances relating to public filings with the SEC, receipt of certain notifications from the SEC or other governmental authority with respect to the registration statement or the Registrable Securities, pending corporate developments and similar events, including the passage of time or occurrence of certain events that would make any statement in this prospectus or in the registration statement untrue in any material respect or that would require any revisions to the registration statement, this prospectus or other documents, and with respect to an event or pending corporate development that we believe may be material and that, in our determination makes it not in the best interest of the Company to allow continued availability of the registration statement or the prospectus. Any suspension period shall not exceed 60 calendar days in any 12-month period.

We will pay predetermined additional amounts on any interest payment date if the registration statement is not made effective or if the prospectus included in the registration statement is unavailable for periods in excess of those permitted above on the Debentures, at an annual rate equal to 1.0% of the aggregate purchase price paid by such holder for any unregistered registrable securities then held by such holder until such time as the registration statement is declared effective or until the time that the registration statement again becomes effective and available. If we fail to pay any partial liquidated damages pursuant to these provisions of the Registration Rights Agreement within seven days after the date payable, we will pay interest thereon at a rate of 18% per annum accruing daily from the date such partial liquidated damages are due until such amounts, plus all such interest thereon, are paid in full.

We will have no other liabilities for monetary damages with respect to our registration obligations.

A holder who elects to sell registrable securities pursuant to the registration statement will be required to:

- be named as a selling securityholder in the related prospectus;
- deliver a prospectus to purchasers; and
- be subject to the provisions of the Registration Rights Agreement, including indemnification provisions.

In addition, a holder who elects to resell registrable securities pursuant to the registration statement will be subject to certain of the civil liability provisions under the Securities Act in connection with such holder s sales.

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Under the Registration Rights Agreement we will, among other things,

- pay all expenses as set forth in the Registration Rights Agreement with respect to the registration statement;
- provide each registered holder copies of the prospectus;
- notify holders when the registration statement has become effective; and
- take other reasonable actions as are required to permit the use of the registration statement by holders of registrable securities in accordance with the terms and conditions of the Registration Rights Agreement.

This summary is subject to, and is qualified in its entirety by reference to, all the provisions of the Registration Rights Agreement.

Certain Definitions

Set forth below is a summary of certain of the defined terms used herein. Reference is made to the Indenture for the full definition of all such terms, as well as any other terms used herein for which no definition is provided.

Certificated Debenture means a Debenture in registered individual form without interest coupons.

Change of Control Transaction means the occurrence after the of any of (a) an acquisition after the date hereof by an individual or legal entity or group (as described in Rule 13d-5(b)(1) promulgated under the Exchange Act) of effective control (whether through legal or beneficial ownership of our capital stock of the Company, by contract or otherwise) of in excess of 40% of the our voting securities (other than by means of conversion or exercise of the Debentures and the securities issued together with the Debentures), (b) the Company merges into or consolidates with any other Person, or any Person merges into or consolidates with the Company and, after giving effect to such transaction, the stockholders of the Company immediately prior to such transaction own less than 60% of the aggregate voting power of the Company or the successor entity of such transaction, (c) we sell or transfer all or substantially all of our assets to another Person and the stockholders of the Company immediately prior to such transaction own less than 60% of the aggregate voting power of the acquiring entity immediately after the transaction, (d) a replacement at one time or within a three year period of more than one-half of the members of the Board of Directors which is not approved by a majority of those individuals who are members of the Board of Directors on the date hereof (or by those individuals who are serving as members of the Board of Directors on any date whose nomination to the Board of Directors was approved by a majority of the members of the Board of Directors who are members on the date hereof), or (e) the execution by us of an agreement to which we are a party or by which we are bound, providing for any of the events set forth in clauses (a) through (d) above.

Common Stock Equivalents means any securities of the Company or our subsidiaries which would entitle the holder thereof to acquire at any time common stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive common stock.

Conversion Shares means, collectively, the shares of common stock issued or issuable upon conversion of the Debentures, including, without limitation, shares of common stock issued or issuable, if any, as Interest Make-Whole and any Additional Shares.

Depository means DTC or the nominee thereof, or any successor thereto.

Equity Conditions means, during the period in question, (a) the Company shall have duly honored all conversions and redemptions scheduled to occur or occurring by virtue of one or more Notices of Conversion of a beneficial owner of interests in the Debentures, if any, (b) the Company shall have paid all liquidated damages and other amounts owing to the Holder in respect of the Debentures, (c) there is an effective Registration Statement pursuant to which beneficial owners of interests in the Debentures are permitted to utilize the prospectus thereunder to resell all of the shares of Common Stock issuable pursuant to the Transaction Documents (and the Company believes, in good faith, that such effectiveness will continue uninterrupted for the foreseeable future), as determined by outside counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Transfer Agent and such beneficial owners, (d) the Common Stock is trading on a Trading Market and all of the shares issuable pursuant to the Transaction Documents are listed or quoted for trading on such Trading Market (and the Company believes, in good faith, that trading of the Common Stock on a Trading Market will continue uninterrupted for the foreseeable future), (e) there is a sufficient number of authorized but unissued and otherwise unreserved shares of Common Stock for the issuance of all of the shares issuable pursuant to the Transaction Documents (disregarding any limitation on issuance or conversion under such documents), (f) there is no existing Event of Default and no existing event which, with the passage of time or the giving of notice, would constitute an Event of Default, (g) the issuance of the shares in question (or, in the case of a Company Optional Redemption or a Holder Optional Redemption, the shares issuable upon conversion in full of the applicable Optional Redemption Amount) to such beneficial owners would comply with the limitations set forth in Section 10.02(c) of the Indenture, (h) there has been no public announcement of a pending or proposed Fundamental Transaction or Change of Control Transaction that has not been consummated, (i) the Holder is not in possession of any information provided by the Company that constitutes, or may constitute, material non-public information and (j) for each Trading Day in a period of 20 consecutive Trading Days prior to the applicable date in question, the daily trading volume for the Common Stock on the principal Trading Market exceeds 50,000 shares (subject to adjustment for forward and reverse stock splits and the like) per Trading Day.

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Global Debenture means a Debenture in registered global form without interest coupons that is deposited with the Depository or its custodian and registered in the name of the Depository or its nominee.

Mandatory Default Amount means the sum of (a) the greater of (i) the outstanding principal amount of the Debenture, plus all accrued and unpaid interest hereon, divided by the conversion price on the date the Mandatory Default Amount is either (A) demanded (if demand or notice is required to create an event of default) or otherwise due or (B) paid in full, whichever results in a lower conversion price, multiplied by the VWAP on the date the Mandatory Default Amount is either (x) demanded or otherwise due or (y) paid in full, whichever has a higher VWAP, or (ii) 100% of the outstanding principal amount of the Debentures plus 100% of accrued and unpaid interest hereon, (b) all other amounts, costs, expenses and liquidated damages due in respect of the Debentures and (c) any Interest Make-Whole.

Mortgages means all security filings, whether denominated as mortgages, deeds of trust, assignments of rents, pledges or otherwise, which perfect a lien on the Company s interests in real property.

Original Issue Date means June 18, 2008, the date the Original Debentures were issued.

Permitted Indebtedness means (a) the debt evidenced by the Credit Agreement, as the same may be amended, transferred to other institutional lenders or otherwise refinanced or restated, from time to time, except that no such restatement, refinancing, or amendment shall (i) result in the size of the credit facility being greater than $150,000,000 aggregate principal amount (which amount shall include all fees and other amounts paid or payable in connection with such restatement, refinancing, or amendment) or (ii) without the consent of holders of at least 67% in principal amount of the then-outstanding Debentures, change the other terms of such Indebtedness from such terms existing on the Original Issue Date so as to adversely affect in any material respect the holders of the Debentures; (b) the indebtedness evidenced by the Debentures; (c) the Indebtedness existing on the Original Issue Date and set forth on a schedule to the Indenture, as the same may be amended, transferred to other institutional lenders or otherwise refinanced or restated, from time to time, except that no such restatement, refinancing, or amendment shall (i) result in the principal amount of any such Indebtedness (which amount shall include all fees and other amounts paid or payable in connection with such restatement, refinancing, or amendment) being greater than the principal amount thereof on the Original Issue Date or (ii) without the consent of holders of at least 67% in principal amount of the then outstanding Debentures, change the other terms of such Indebtedness (including without limitation with respect to liens, collateral, subordination, average life, stated maturity and obligors) from the terms existing on the Original Issue Date so as to adversely affect in any material respect the holders of the Debentures; and (d) up to $30,000,000 of additional indebtedness that is expressly subordinated to the Debentures pursuant to a written Intercreditor and Subordination Agreement with the Purchasers that is reasonably acceptable to the holders of at least 67% in principal amount of the then-outstanding Debentures.

Permitted Lien means the individual and collective reference to the following: (a) Liens in connection with Permitted Indebtedness referred to in clauses (a) and (c) of the definition of Permitted Indebtedness; (b) Liens for taxes, assessments and other governmental charges or levies not yet due or Liens for taxes, assessments and other governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of the Company) have been established in accordance with GAAP; and (c) Liens imposed by law which

Person means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity, including a government or political subdivision or an agency or instrumentality thereof.

were incurred in the ordinary course of the Company s or any subsidiary s business, such as carriers , warehousemen s and mechanics Liens, statutory landlords Liens, and other similar Liens arising in the ordinary course of the Company s or any subsidiary s business, and which (x) do not individually or in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of the Company and its consolidated Subsidiaries or (y) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing for the foreseeable future the forfeiture or sale of the property or asset subject to such Lien.

Security Documents shall mean the Intercreditor Agreement, the Subordinated Guaranty, the Mortgages, and any other documents and filings required thereunder in order to grant the purchasers of the Debentures a second priority security interest in the assets of the Company and subsidiaries as provided in the Subordinated Guaranty, including all UCC-1 filing receipts, mortgages and deeds of trust.

Trading Market means the following markets or exchanges on which the common stock is listed or quoted for trading on the date in question: the American Stock Exchange, the NASDAQ Capital Market, the NASDAQ Global Market, the NASDAQ Global Select Market, the New York Stock Exchange or the OTC Bulletin Board.

Transaction Documents shall mean the Debentures, the Registration Rights Agreement, the Subordinated Guaranty, the Intercreditor Agreement, all exhibits and schedules thereto and hereto and any other documents or agreements executed in connection with the transactions contemplated hereunder.

Trustee means The Bank of New York Mellon Trust Company, N.A., a national banking association, or any successor trustee.

VWAP means, for any date, the price determined by the first of the following clauses that applies: (a) if the common stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the common stock for such date (or the nearest preceding date) on the trading market on which the common stock is then listed or quoted for trading as reported by Bloomberg L.P. (utilizing a trading day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)); (b) if the common stock is not then listed or quoted on the trading market, and if prices for the common stock are then reported in the Pink Sheets published by OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the common stock so reported; or (c) in all other cases, the fair market value of a share of common stock as determined by an independent appraiser selected in good faith by the holders and reasonably acceptable to us.

PRICE RANGE OF COMMON STOCK

As of September 5, 2008, there were approximately 157 holders of record of our common stock (without determining the number of individual participants in security positions) and 21,954,490 shares of our common stock were issued outstanding. High and low sales prices for our common stock for each calendar quarter are as follows:

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	Price Range	
	High	Low
2008 Period		
First quarter	$5.20	$4.00
Second quarter	6.43	4.50
2007 Period		
First quarter	$5.52	$4.31
Second quarter	5.98	3.86
Third quarter	5.56	4.09
Fourth quarter	4.99	3.75
2006 Period		
First quarter	$8.95	$5.80
Second quarter	7.50	4.90
Third quarter	5.97	3.92
Fourth quarter	5.46	4.10

On September 5, 2008, the closing sale price of our common stock, as reported by The American Stock Exchange, was $3.65 per share. We encourage you to obtain current market price quotations for our common stock.

DIVIDEND POLICY

We have not paid any dividends on our common stock since inception, and we do not anticipate the declaration or payment of any dividends at any time in the foreseeable future.

SELLING SECURITYHOLDERS

The Debentures were originally issued by us and sold to certain initial purchasers in the private placement in June 2008 and exchanged for Exchanged Debentures on September [__], 2008. The following table identifies the investors, sets forth the principal amount of the Debentures purchased by each investor, the number of shares of our common stock issuable to such investor upon conversion of the Debenture at the initial conversion price, as well as the number of shares of our common stock issuable to such investor if we choose to pay the Interest Make-Whole premium in shares of our common stock, if applicable. See Description of Debentures Interest, Prepayment, and Payment at Maturity above for additional information on the Interest Make-Whole premium.

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Investor	Principal Amount of Debentures Purchased	Number of Shares of Common Stock Issuable Upon Conversion	Number of Shares of Common Stock Potentially Issuable for Interest Make-Whole
Whitebox Teton, Ltd.	$ 21,000,000	3,230,770	1,185,495
Ironman PI Fund (QP), L.P.	$ 1,000,000	153,847	56,452
Aristeia International Limited	$ 2,000,000	307,693	112,904
Aristeia Special Investmens Master, L.P.	$ 400,000	61,539	22,581
Aristeia Partners, L.P.	$ 2,600,000	400,000	146,776
UBS O Connor LLC F/B/O: O Connor Global Convertible Arbitrage Master Limited	$ 4,500,000	692,308	254,035
UBS O Connor LLC F/B/O: O Connor Global Convertible Arbitrage II Master Limited	$ 500,000	76,924	28,226
UBS O Connor LLC F/B/O: O Connor PIPES Corporate Strategies Master Limited	$ 1,000,000	153,847	56,452
Interlachen Convertible Investments Limited	$ 7,000,000	1,076,924	395,164
TOTAL:	**$ 40,000,000**	**6,153,852**	**2,258,085**

We are registering for resale from time to time by the selling securityholders identified below the Debentures, the Subordinated Guarantees and the shares of our common stock issuable to the selling securityholders upon conversion of the Debentures and satisfaction of the Interest-Make Whole premium in shares. The term selling securityholder includes the securityholders listed below and their transferees, pledgees, donees or other successors.

All information contained in the table below is based upon information provided to us by the selling securityholders as of July 2, 2008, and we have not independently verified this information. The selling securityholders identified below may have sold, transferred or otherwise disposed of some or all of their Debentures or common stock since the date on which the information in the following table is presented in transactions exempt from or not subject to the registration requirements of the Securities Act. In addition, this prospectus also covers the possible resale of the Debentures and common stock issued upon conversion thereof by other currently unknown persons who may become beneficial owners of these securities as a result of a transfer by a selling securityholder. Information concerning the selling securityholders may therefore change from time to time and, if necessary, we will supplement this prospectus accordingly.

Except as provided below, none of the selling securityholders has held any position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years other than as a result of the ownership of our securities, nor are they registered broker-dealers or affiliates of broker-dealers. We may amend or supplement this prospectus from time to time to update the disclosures set forth in it.

The following table sets forth, for each selling securityholder to the extent known by us, (i) the principal amount of our Debentures and the amount of our common stock beneficially owned by the selling securityholder prior to the offering registered hereunder; (ii) the principal amount of our Debentures and

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the amount of our common stock to be offered hereby by such selling securityholder; and (iii) the principal amount of our Debentures, the number of shares of common stock and percentage of outstanding common stock, to be owned after completion of this offering. The information presented in this table assumes that the principal amount of each Debenture is fully converted and that the maximum number of shares for the Interest Make-Whole premium are issued. In addition, for purposes of the table below, we have assumed that, after completion of the offering, none of the Debenture and/or shares of common stock offered by this prospectus will be held by the selling securityholders. The number of shares outstanding and the percentages of beneficial ownership are based on 21,954,490 shares of common stock of Teton issued and outstanding as of September 5, 2008.

The total principal amount at maturity of Debentures that may be sold hereunder will not exceed the $40,000,000 we issued. See Plan of Distribution.

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Name of Selling Securityholder	Beneficial Ownership Prior to The Offering		Securities Offered Hereby		Beneficial Ownership Following the Offering		
	Principal Amount of Debentures	Number of Shares of Common Stock(1)	Principal Amount of Debentures	Number of Shares of Common Stock	Principal Amount of Debentures	Number of Shares of Common Stock	Percentage of Common Stock
Whitebox Teton, Ltd. (2)	$ 21,000,000	4,416,265	$ 21,000,000	4,416,265	$		
Ironman PI Fund (QP), L.P. (3)	$ 1,000,000	210,299	$ 1,000,000	210,299	$		
Aristeia International Limited (4)	$ 2,000,000	420,597	$ 2,000,000	420,597	$		
Aristeia Special Investmens Master, L.P. (4)	$ 400,000	84,120	$ 400,000	84,120	$		
Aristeia Partners, L.P. (4)	$ 2,600,000	546,776	$ 2,600,000	546,776	$		
UBS O Connor LLC F/B/O: O Connor Global Convertible Arbitrage Master Limited (5)	$ 4,500,000	946,343	$ 4,500,000	946,343	$		
UBS O Connor LLC F/B/O: O Connor Global Convertible Arbitrage II Master Limited (5)	$ 500,000	105,150	$ 500,000	105,150	$		
UBS O Connor LLC F/B/O: O Connor PIPES Corporate Strategies Master Limited (5)	$ 1,000,000	210,299	$ 1,000,000	210,299	$		
Interlachen Convertible Investments Limited (6)	$ 7,000,000	1,472,088	$ 7,000,000	1,472,088	$		
TOTAL:	**$ 40,000,000**	**8,411,937**	**$ 40,000,000**	**8,411,937**	$		

(1) The conversion rate and the number of shares of common stock issuable upon conversion of the Debentures are subject to adjustment under certain circumstances. See Description

of the Debentures above. Accordingly, the number of shares of common stock issuable upon conversion of the Debentures may increase or decrease from time to time. In addition, pursuant to the terms of the Debentures, a selling securityholder may not convert the Debentures to the extent such conversion would cause such selling securityholder, together with its affiliates, to beneficially own a number of shares of common stock that would exceed 4.99% (or, if such percentage is increased or decreased pursuant to the terms of the Debentures, up to 9.99%) of our then-outstanding shares of common stock following such conversion, excluding for purposes of such determination shares of common stock issuable upon conversion of the portion of the Debentures which have not been converted. The number of shares in the table does not reflect this limitation.

(2) The address for Whitebox Teton, Ltd. is c/o Whitebox Advisors LLC, 3033 Excelsior Blvd., Suite 300, Minneapolis, Minnesota 55416. Andrew J. Redleaf, CEO of Whitebox Advisors, LLC has voting and/or dispositive powers with respect to the securities to be offered by Whitebox Teton Ltd.

(3) The address for Ironman PI Fund (QP), L.P. is 2211 Norfolk, Suite 611, Houston, Texas, 77098. Gerald Bryan Dutt has voting and/or dispositive powers with respect to the securities to be offered by Ironman PI Fund (QP), L.P.

(4) The address for Aristeia International Limited, Aristeia Special Investments Master, L.P. and Aristeia Partners, L.P. is c/o Aristeia Capital LLC, 136 Madison Avenue, 3rd Floor, New York, New York 10016. Aristeia Advisors, LLC is the general partner of Aristeia Partners, LP, and has voting and/or dispositive powers with respect to the securities that Aristeia Partners, LP may offer.

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Aristeia Capital, LLC is the investment manager for Aristeia International Limited and Aristeia Special Investments Master, L.P. and has voting and/or dispositive powers with respect to the securities these selling securityholders may offer. Aristeia Advisors, LLC and Aristeia Capital, LLC are jointly owned by Kevin C. Toner, Robert H. Lynch, Jr., Anthony M. Frascella and William R. Techar.

(5) The address for O Connor Global Convertible Arbitrage Master Limited, O Connor Global Convertible Arbitrage II Master Limited and O Connor PIPES Corporate Strategies Master Limited is c/o UBS O Connor LLC,

One North Wacker Drive, 32nd Floor, Chicago, Illinois 60606. UBS O Connor LLC is the investment manager of each of these selling securityholders and has voting and/or dispositive powers with respect to the securities these selling securityholders may offer. UBS O Connor LLC is a wholly-owned subsidiary of UBS AG, which is listed and traded on the NYSE. Each of these selling securityholders has advised us that it is affiliated with a registered broker-dealer, and that it purchased the securities reflected in the table in the ordinary course of business, and at the time of such purchase, had no agreements or understandings, directly or indirectly, with any other person to distribute such securities.

(6) The address for Interlachen Convertible Investments Limited is c/o Interlachen Capital Group LP, 800 Nicollet Mall, Suite 2500, Minneapolis, Minnesota 55402. Interlachen Capital Group LP is the trading manager of this selling securityholder and has voting and investment discretion over the securities it may offer. Andrew Fraley and Jonathan Havice, as the managing members of the general partner of Interlachen Capital Group LP, have shared voting control and investment discretion over securities held by this selling securityholder. Andrew Fraley and Jonathan Havice disclaim beneficial ownership of the securities held by Interlachen Convertible Investments

Limited. This selling securityholder has advised us that it is affiliated with a registered broker-dealer, and that it purchased the securities reflected in the table in the ordinary course of business, and at the time of such purchase, had no agreements or understandings, directly or indirectly, with any other person to distribute such securities.

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PLAN OF DISTRIBUTION

Each selling securityholder of our common stock and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the American Stock Exchange or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling securityholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The selling securityholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling securityholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling securityholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA NASD Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with NASD IM-2440.

In connection with the sale of the common stock or interests therein, the selling securityholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling securityholders may also sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling securityholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling securityholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling securityholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the common stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

We are required to pay certain fees and expenses incurred by us incident to the registration of the shares. We have agreed to indemnify the selling securityholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because selling securityholders may be deemed to be underwriters within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling securityholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the selling securityholders without registration and without regard to any volume or manner-of-sale limitations by reason of Rule 144, without the requirement for us to be in compliance with the current public information under Rule 144 under the Securities Act or any other rule of similar effect or (ii) all of the shares have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling securityholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling securityholders or any other person. We will make copies of this prospectus available to the selling securityholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

We are also registering the Debentures and the related Subordinated Guarantees under the registration statement under which this prospectus forms a part. The selling securityholders and their successors, which includes their pledgees, donees, partnership distributees and other transferees receiving the Debentures and the related Subordinated Guarantees, may sell the Debentures and Subordinated Guarantees directly to purchasers or through underwriters, broker-dealers or agents. Underwriters, broker-dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling securityholders or the purchasers. These discounts, concessions or commissions may be in excess of those customary in the types of transactions involved.

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Selling securityholders may decide not to sell all or a portion of the Debentures and Subordinated Guarantees offered by them pursuant to this prospectus, and instead may sell or transfer their Debentures other than by means of this prospectus. In particular, any securities covered by this prospectus that qualify for sale pursuant to Rule 144 or Rule 144A may be sold thereunder, rather than pursuant to this prospectus.

Teton common shares are listed on the American Stock Exchange under the symbol TEC. We do not intend to apply for listing of the Debentures on any securities exchange and thus there is no public trading market for the Debentures. The Debentures are currently designated for inclusion in The PORTAL Market. However, Debentures sold pursuant to this prospectus will no longer be eligible for trading on The PORTAL Market. Accordingly, no assurances can be given as to the liquidity of the trading market for the Debentures or that an active public market for the Debentures will develop. If an active market for the Debentures does not develop, the market price and liquidity of those securities may be adversely affected. If the Debentures are traded, they may trade at a discount from their initial offering price, depending on the market for similar securities, our performance, and other factors.

LEGAL MATTERS

Gersten Savage LLP, New York, New York, will pass upon the validity of the Debentures and the common stock offered hereby. Certain partners of Gersten Savage LLP and their families have ownership interests totaling approximately 0.3% in our Company.

EXPERTS

The consolidated financial statements incorporated in this Prospectus by reference to the Annual Report on Form 10-K as of and for the year ended December 31, 2007 have been so incorporated in reliance on the report of Ehrhardt Keefe Steiner & Hottman PC, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings (File No. 1-31679) are available to the public over the Internet at the SEC s web site at http://www.sec.gov, and at our web site at http.//www.teton-energy.com. You may also read and copy any document we file at the SEC s public reference room located at 100 F. Street, N.E., Washington, D.C., 20549. You may request copies of these documents by writing to the SEC and paying a fee for the copying cost. You may call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room.

This prospectus is part of a registration statement that we have filed with the SEC relating to the Debentures, Subordinated Guarantees and shares of common stock issuable in connection therewith. As permitted by SEC rules, this prospectus does not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, the exhibits and schedules for more information about us and our securities. The registration statement, exhibits and schedules are available at the SEC s public reference room or through its website.

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Our common stock has been listed on the NASDAQ Capital Market under the symbol TEC as of September 8, 2008. Our reports, proxy statements and other information filed with the SEC prior to September 8, 2008 also may be read and copied at the American Stock Exchange at 86 Trinity Place, New York, New York 10006.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference certain information into this prospectus, which means that we can disclose important information to you by referring you other documents that we file with the SEC. The information incorporated by reference is deemed to be a part of this prospectus, and an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended (other than information deemed to have been furnished to, and not filed in accordance with, SEC rules) until the termination of the offering pursuant to this prospectus.

The information related to us contained in this prospectus should be read in conjunction with the information contained in the documents incorporated by reference.

- Our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 13, 2008.

- Our Proxy Statement on Schedule 14A, filed with the SEC on March 19, 2008;

- Our Quarterly Report on Form 10-Q for the period ended March 31, 2008, filed with the SEC on May 8, 2008;

- Our Quarterly Report on Form 10-Q for the period ended June 30, 2008, filed with the SEC on August 7, 2008;

- Our Current Reports on Form 8-K, filed with the SEC on January 31, 2008, February 25, 2008, February 26, 2008, March 5, 2008, April 3, 2008 (as amended on May 23, 2008), April 18, 2008, April 30, 2008, June 10, 2008, June 19, 2008, July 16, 2008 and August 6, 2008.

- The description of our common stock set forth in our registration statement on Form 10-SB/A filed July 11, 2001 (File No. 000-31170), and any subsequent amendment or report filed for the purpose of updating this description.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address or telephone number:

Teton Energy Corporation
410 Seventeenth Street, Suite 1850
Denver, Colorado 80202-4444
Attn: Investor Relations
(303) 565-4600

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DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

You should rely only on the information incorporated by reference or contained in this prospectus. We have not authorized any dealer, salesperson or other person to give you different information. This prospectus does not constitute an offer to sell nor are they seeking an offer to buy the securities referred to in this prospectus in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus and the documents incorporated by reference are correct only as of the date shown on the cover page of these documents, regardless of the time of the delivery of these documents or any sale of the securities referred to in this prospectus.

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$40,000,000
10.75% Secured Subordinated Convertible Debentures due 2013,
up to 8,411,937 Shares of Common Stock
issuable upon conversion of the Debentures
and
Subordinated Guaranty and Pledge Agreement
SEPTEMBER [ ], 2008

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PART II
Information Not Required in the Prospectus

Item 14. Other Expenses of Issuance and Distribution.

The expenses in connection with the issuance and distribution of the securities being registered are set forth in the following table (all amounts, except the registration fee, are estimated):

SEC Registration Fee	$ 1,572
Legal fees and expenses	$ 50,000
Accounting fees and expenses	$ 5,000
Printing and miscellaneous expenses	$ 3,000
TOTAL:	**$ 59,572**

Item 15. Indemnification of Officers and Directors.

The Company shall, to the fullest extent permitted by Section 145 of the General Corporation Law of the state of Delaware, as the same may be amended and supplemented, indemnify any and all persons whom it shall have the power to indemnify under said section from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of the stockholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director, Officer, Employee or Agent and shall inure to the benefit of the heirs, executors and administrators of such person.

The Board of Directors of the Company may also authorize the Company to indemnify employees or agents of the Company, and to advance the reasonable expenses of such persons, to the same extent, following the same determinations and upon the same conditions as are required for the indemnification of and advancement of expenses to directors and officers of the Company.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the Securities Act) may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission (the SEC) such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Indemnification Agreements

The Company may enter into indemnification agreements with its directors and officers for the indemnification of and advancing of expenses to such persons to the fullest extent permitted by law.

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Item 16. Exhibits.

Exhibit No.	Description
4.1	Form of common stock certificate.*
4.2	Form of Secured Subordinated Convertible Debenture Indenture dated September [___], 2008 among Teton Energy Corporation, Teton North America LLC, Teton Piceance LLC, Teton DJ LLC, Teton Williston LLC, Teton Big Horn LLC, Teton DJCO LLC and The Bank of New York Mellon Trust Company, N.A.
4.3	Form of 10.75% Secured Convertible Debenture dated June 18, 2008 issued by Teton Energy Corporation (incorporated by reference to Exhibit 4.1 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.4	Form of Exchanged 10.75% Secured Subordinated Convertible Debenture dated September [___], 2008 (included in Exhibit 4.2).
4.5	Form of Securities Purchase Agreement dated June 9, 2008, entered into by and between Teton Energy Corporation and the investors (incorporated by reference to Exhibit 10.1 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.6	Form of Letter Agreement dated September [___], 2008 amending and supplementing the Securities Purchase Agreement dated June 9, 2008.
4.7	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.8	Form of Subordinated Guaranty and Pledge Agreement dated June 18, 2008, entered into by and between Teton Energy Corporation, Teton North America LLC, Teton Piceance LLC, Teton DJ LLC, Teton Williston LLC, Teton Big Horn LLC, Teton DJCO LLC and Whitebox Advisors LLC (incorporated by reference to Exhibit 10.4 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.9	Form of Amended and Restated Subordinated Guaranty and Pledge Agreement dated [___], 2008.
4.10	Form of Intercreditor and Subordination Agreement dated June 9, 2008, entered into by and between, Teton Energy Corporation, JPMorgan Chase Bank, N.A. as administrative agent and the representative for the subordinated holders (incorporated by reference to Exhibit 10.3 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.11	Form of Amended and Restated Intercreditor and Subordination Agreement dated September [___], 2008.
5.1	Opinion of Gersten Savage LLP.
12.1	Statement re: Computation of Ratio of Earnings to Fixed Charges.*
23.1	Consent of Gersten Savage LLP (included in Exhibit 5.1).
23.2	Consent of Ehrhardt Keefe Steiner & Hottman PC.

24	Power of Attorney (included on the signature page of the registration statement).*
25	Statement of Eligibility of Trustee for Indenture under the Trust Indenture Act of 1939.

* Previously filed.

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Item 17. Undertakings.

We hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(a) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(b) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price, set forth in the Calculation of Registration Fee table in the effective registration statement; and

(c) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

provided, however, that paragraphs (a), (b) and (c) above do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) that are incorporated by reference into the registration statement or is contained in a form of prospectus filed pursuant to Rule 424(b) of the Securities Act that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and

We hereby undertake that, for purposes of determining any liability under the Securities Act, each filing of the registrant s annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification by us for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced above or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act, and is, therefore unenforceable. In the event that a

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claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act, and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, state of Colorado, on September 10, 2008.

TETON ENERGY CORPORATION

/s/ Karl F. Arleth
Karl F. Arleth
President and Chief Executive Officer

/s/ Lonnie R. Brock
Lonnie R. Brock
Executive Vice President and
Chief Financial Officer
(principal financial officer and
principal accounting officer)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities on the dates indicated.

Signature	Title	Date
/s/ * James J. Woodcock	Chairman and Director	September 10, 2008
/s/ Karl F. Arleth Karl F. Arleth	President, Chief Executive Officer and Director (principal executive officer)	September 10, 2008
/s/ * Thomas F. Conroy	Director	September 10, 2008
/s/ * John T. Connor	Director	September 10, 2008
/s/ * Bill I. Pennington	Director	September 10, 2008
/s/ * Robert Bailey	Director	September 10, 2008

/s/ Lonnie R. Brock Lonnie R. Brock	Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	September 10, 2008
/s/ * Dominic J. Bazile, II	Executive Vice President, Chief Operating Officer and Director	September 10, 2008

*By: /s/ Karl F. Arleth
Karl F. Arleth
Attorney-in-Fact,
granted in the Company s
Registration Statement on
Form S-3 filed August 13, 2008

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, each registrant listed below certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, state of Colorado, on September 10, 2008.

TETON NORTH AMERICA LLC
By: Teton Energy Corporation, its sole member

By: /s/ Karl F. Arleth
Name: Karl F. Arleth
Title: President and Chief Executive Officer

TETON PICEANCE LLC
By: Teton North America LLC, its sole member

By: /s/ Karl F. Arleth
Name: Karl F. Arleth
Title: President and Chief Executive Officer

TETON DJ LLC
By: Teton North America LLC, its sole member

By: /s/ Karl F. Arleth
Name: Karl F. Arleth
Title: President and Chief Executive Officer

TETON WILLISTON LLC
By: Teton North America LLC, its sole member

By: /s/ Karl F. Arleth
Name: Karl F. Arleth
Title: President and Chief Executive Officer

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TETON BIG HORN LLC
By: Teton North America LLC, its sole member

By: /s/ Karl F. Arleth
Name: Karl F. Arleth
Title: President and Chief Executive Officer

TETON DJCO LLC
By: Teton Energy Corporation, its sole member

By: /s/ Karl F. Arleth

Name: Karl F. Arleth
Title: President and Chief Executive Officer

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EXHIBIT INDEX

Exhibit No.	Description
4.1	Form of common stock certificate.*
4.2	Form of Secured Subordinated Convertible Debenture Indenture dated September [___], 2008 among Teton Energy Corporation, Teton North America LLC, Teton Piceance LLC, Teton DJ LLC, Teton Williston LLC, Teton Big Horn LLC, Teton DJCO LLC and The Bank of New York Mellon Trust Company, N.A.
4.3	Form of 10.75% Secured Convertible Debenture dated June 18, 2008 issued by Teton Energy Corporation (incorporated by reference to Exhibit 4.1 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.4	Form of Exchanged 10.75% Secured Subordinated Convertible Debenture dated September [___], 2008 (included in Exhibit 4.2).
4.5	Form of Securities Purchase Agreement dated June 9, 2008, entered into by and between Teton Energy Corporation and the investors (incorporated by reference to Exhibit 10.1 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.6	Form of Letter Agreement dated September [___], 2008 amending and supplementing the Securities Purchase Agreement dated June 9, 2008.
4.7	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.8	Form of Subordinated Guaranty and Pledge Agreement dated June 18, 2008, entered into by and between Teton Energy Corporation, Teton North America LLC, Teton Piceance LLC, Teton DJ LLC, Teton Williston LLC, Teton Big Horn LLC, Teton DJCO LLC and Whitebox Advisors LLC (incorporated by reference to Exhibit 10.4 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.9	Form of Amended and Restated Subordinated Guaranty and Pledge Agreement dated [___], 2008.
4.10	Form of Intercreditor and Subordination Agreement dated June 9, 2008, entered into by and between, Teton Energy Corporation, JPMorgan Chase Bank, N.A. as administrative agent and the representative for the subordinated holders (incorporated by reference to Exhibit 10.3 of Teton s Form 8-K filed with the SEC on June 19, 2008).
4.11	Form of Amended and Restated Intercreditor and Subordination Agreement dated September [___], 2008.
5.1	Opinion of Gersten Savage LLP.
12.1	Statement re: Computation of Ratio of Earnings to Fixed Charges.*
23.1	Consent of Gersten Savage LLP (included in Exhibit 5.1).
23.2	Consent of Ehrhardt Keefe Steiner & Hottman PC.

24 Power of Attorney (included on the signature page of the registration statement).*

25 Statement of Eligibility of Trustee for Indenture under the Trust Indenture Act of 1939.

* Previously filed.

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—

Undistributed income
$
21,326

19,826

Allocation of net income:

Dividends
$
—

—

—

—

Allocation of undistributed income
20,723

603

19,265

561

Net income
$
20,723

603

19,265

561

Denominator:

Basic earnings per share - weighted-average shares
3,436

200

3,435

200

Effect of dilutive stock options
2

—

2

—

Diluted earnings per share - adjusted weighted-average shares for assumed conversions
3,438

200

3,437

200

Basic Earnings Per Share
$
6.03

3.02

5.61

2.80

Diluted Earnings Per Share
$
6.03

3.02

5.61

2.80

Stock options that were outstanding during the three months ended March 31, 2015 and 2014, but were not included in the computation of diluted earnings per share because the effect was anti-dilutive, were approximately 21,800 and 22,400, respectively.

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

(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering employees enrolled prior to 2008. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies 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 table summarizes the components of net periodic benefit cost.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Service cost	$51	42
Interest cost	246	240
Expected return on plan assets	(330)	(320)
Amortization of prior service cost	1	1
Amortization of net loss	196	105
Net periodic benefit cost	$164	68

The service costs shown in the above table represent plan expenses expected to be paid out of plan assets. Under clarification provided by the Pension Protection Act, plan expenses paid from plan assets are to be included in the plan's service cost component.

The Company's minimum required contribution for the 2015 plan year is $0.0 million. The Company had no remaining contribution payable for the 2014 plan year as of March 31, 2015. As of March 31, 2015, the Company had contributed a total of $0.0 million to the plan for the 2015 plan years.

The Company also sponsors a nonqualified 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 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 nonqualified defined benefit plan for the benefit of the Chairman and the President 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 nonqualified defined benefit plan, while complying with the requirements of the Act.

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The following table summarizes the components of net periodic benefit costs for the Chairman and President's nonqualified defined benefit plans.

	Three Months Ended March 31, 2015	2014
	(In thousands)	
Service cost	$64	73
Interest cost	219	251
Amortization of prior service cost	15	15
Amortization of net loss	378	323
Net periodic benefit cost	$676	662

The Company expects to contribute $2.0 million to these plans in 2015. As of March 31, 2015, the Company has contributed $0.4 million to the plans.

(B) Defined Benefit Postretirement Healthcare Plans

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

	Three Months Ended March 31, 2015	2014
	(In thousands)	
Interest cost	$32	28
Amortization of prior service cost	26	26
Amortization of net loss	15	(1)
Net periodic benefit cost	$73	53

The Company expects to contribute minimal amounts to the plan in 2015.

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

(6) SEGMENT AND OTHER OPERATING 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 for the quarters ended March 31, 2015 and March 31, 2014 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
March 31, 2015					
Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$65,368	249,736	630,240	—	945,344
Total segment assets	783,839	1,246,906	8,988,348	259,212	11,278,305
Future policy benefits	675,837	949,876	7,916,554	—	9,542,267
Other policyholder liabilities	13,661	17,777	121,951	—	153,389
Three Months Ended March 31, 2015					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$6,487	30,333	4,840	—	41,660
Net investment income	7,165	8,614	79,236	4,908	99,923
Other revenues	16	86	15	5,212	5,329
Total revenues	13,668	39,033	84,091	10,120	146,912
Life and other policy benefits	5,113	6,205	7,948	—	19,266
Amortization of deferred acquisition costs	3,181	(650)	25,121	—	27,652
Universal life and annuity contract interest	4,939	7,130	36,970	—	49,039
Other operating expenses	3,715	5,922	6,178	4,695	20,510
Federal income taxes (benefit)	(1,051)	6,545	2,523	1,738	9,755
Total expenses	15,897	25,152	78,740	6,433	126,222
Segment earnings (loss)	$(2,229)	13,881	5,351	3,687	20,690

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
March 31, 2014					
Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$53,815	239,432	644,532	—	937,779
Total segment assets	634,334	1,188,473	8,627,243	264,435	10,714,485
Future policy benefits	554,247	920,665	7,682,956	—	9,157,868
Other policyholder liabilities	11,867	15,587	116,284	—	143,738
Three Months Ended March 31, 2014					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$8,165	29,108	5,003	—	42,276
Net investment income	6,283	10,718	86,617	4,833	108,451
Other revenues	18	241	37	5,467	5,763
Total revenues	14,466	40,067	91,657	10,300	156,490
Life and other policy benefits	2,492	5,035	5,436	—	12,963
Amortization of deferred acquisition costs	2,400	6,745	19,434	—	28,579
Universal life and annuity contract interest	5,105	10,205	47,626	—	62,936
Other operating expenses	4,279	7,025	7,096	5,063	23,463
Federal income taxes (benefit)	65	3,759	4,102	1,780	9,706
Total expenses	14,341	32,769	83,694	6,843	137,647
Segment earnings (loss)	$125	7,298	7,963	3,457	18,843

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

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Premiums and Other Revenues:		
Premiums and contract revenues	$41,660	42,276
Net investment income	99,923	108,451
Other revenues	5,329	5,763
Realized gains (losses) on investments	978	1,513
Total condensed consolidated premiums and other revenues	$147,890	158,003

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Federal Income Taxes:		
Total segment Federal income taxes	$9,755	9,706
Taxes on realized gains (losses) on investments	342	530
Total condensed consolidated Federal income taxes	$10,097	10,236

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Net Earnings:		
Total segment earnings	$20,690	18,843
Realized gains (losses) on investments, net of taxes	636	983
Total condensed consolidated net earnings	$21,326	19,826

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
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(UNAUDITED)

	March 31, 2015	2014
	(In thousands)	
Assets:		
Total segment assets	$11,278,305	10,714,485
Other unallocated assets	183,698	198,132
Total condensed consolidated assets	$11,462,003	10,912,617

(7) SHARE-BASED PAYMENTS

The Company had a stock and incentive plan ("1995 Plan") which provided for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and, (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, $1.00 par value, common stock which were allowed to be issued under the 1995 Plan, or as to which stock appreciation rights ("SARs") or other awards were allowed to be granted, could 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. The Company has issued only nonqualified stock options and SARs under these plans.

All of the employees of the Company and its subsidiaries are eligible to participate in the current 2008 Plan (as well as previously in the expired 1995 Plan). 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. No awards were issued during the first three months of 2015 or 2014.

Effective during March 2006, the Company adopted and implemented a limited stock buy-back program with respect to the 1995 Plan 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 1995 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.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The Company uses the current fair value method to measure compensation cost. As of March 31, 2015 and 2014, the liability balance was $8.4 million and $7.1 million, respectively. A summary of shares available for grant and activity is detailed below.

		Options Outstanding	
	Shares Available For Grant	Shares	Weighted-Average Exercise Price
Stock Options:			
Balance at January 1, 2015	291,000	29,768	$242.48
Exercised	—	—	$—
Forfeited	—	—	$—
Expired	—	—	$—
Stock options granted	—	—	$—
Balance at March 31, 2015	291,000	29,768	$242.48

	Stock Appreciation Rights Outstanding	
	Awards	Weighted-Average Exercise Price
Stock Appreciation Rights:		
Balance at January 1, 2015	92,186	$157.71
Exercised	(775)	$116.95
Forfeited	—	$—
Granted	—	$—
Balance at March 31, 2015	91,411	$158.05

Stock options and SARs shown as forfeited in the above tables represent vested and unvested awards not exercised by plan participants prior to their termination from the Company. Forfeited stock options during the three months ended March 31, 2014 were awarded under the 1995 Plan. As the 1995 Plan terminated during calendar year 2010, the forfeited shares are not shown as being added back to the "Shares Available For Grant" balance.

The total intrinsic value of SARs exercised was $0.1 million and $0.5 million for the three months ended March 31, 2015 and 2014, respectively. The total share-based liabilities paid for the exercised SARs were $0.1 million and $0.5 million for the three months ended March 31, 2015 and 2014, respectively. The total fair value of stock options and SARs vested during the three months ended March 31, 2015 and 2014 was $0.3 million and $0.4 million, respectively. For the three months ended March 31, 2015 and 2014, the total cash received from the exercise of stock options under the Plans was $0 million and $0, respectively, as no stock options were exercised in these periods.

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

The following table summarizes information about stock options and SARs outstanding at March 31, 2015.

	Options/SARs Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Exercisable
Exercise prices:			
$255.13 (options)	21,768	3.0 years	17,615
$208.05 (options)	8,000	3.2 years	8,000
$236.00 (SARs)	250	3.4 years	200
$114.64 (SARs)	25,243	3.9 years	21,064
$132.56 (SARs)	30,418	6.7 years	9,604
$210.22 (SARs)	35,500	8.7 years	2,800
Totals	121,179		59,283
Aggregate intrinsic value (in thousands)	$9,168		$4,608

The aggregate intrinsic value in the table above is based on the closing stock price of $254.30 per share on March 31, 2015.

In estimating the fair value of the options outstanding at March 31, 2015 and December 31, 2014, the Company employed the Black-Scholes option pricing model with assumptions detailed below.

	March 31, 2015		December 31, 2014	
Expected term of options	3.0 to 8.7 years		3.3 to 9.0 years	
Expected volatility:				
Range	21.30% to 37.77%		19.67% to 37.75%	
Weighted-average	24.30	%	22.91	%
Expected dividend yield	0.14	%	0.13	%
Risk-free rate:				
Range	0.22% to 1.47%		0.13% to 1.62%	
Weighted-average	0.49	%	0.56	%

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 of the option's expected exercise date.

The pre-tax compensation cost recognized in the financial statements related to the two plans defined above was $(0.8) million and $1.7 million for the three months ended March 31, 2015 and 2014, respectively. The related tax (expense)/benefit recognized was $0.3 million and $(0.6) million for the three months ended March 31, 2015 and

2014, respectively.

As of March 31, 2015, the total compensation cost related to nonvested options not yet recognized was $2.0 million. This amount is expected to be recognized over a weighted-average period of 2.0 years. The Company recognizes compensation cost over the graded vesting periods.

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

(8) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

In the normal course of business, the Company is involved or may become involved in various legal actions in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. In recent years, carriers offering life insurance and annuity products have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices, and similar claims. The Company has been a defendant over the past several years in two such class action lawsuits. Given the uncertainty involved in these types of actions, the ability to make a reliable evaluation of the likelihood of an unfavorable outcome or an estimate of the amount of or range of potential loss is endemic to the particular circumstances and evolving developments of each individual matter on its own merits.

The Company resolved a class action lawsuit pending since June 12, 2006, in the U.S. District Court for the Southern District of California. The case is titled In Re National Western Life Insurance Deferred Annuities Litigation. The complaint asserted claims for RICO violations, Financial Elder Abuse, Violation of Cal. Bus. & Prof. Code 17200, et seq, Violation of Cal. Bus. & Prof. Code 17500, et seq, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Fraudulent Concealment, Cal. Civ. Code 1710, et seq, Breach of the Duty of Good Faith and Fair Dealing, and Unjust Enrichment and Imposition of Constructive Trust. On July 12, 2010 the Court certified a nationwide class of policyholders under the RICO allegation and a California class under all of the remaining causes of action except breach of fiduciary duty. The parties entered into a Settlement and Release Agreement in August of 2013 ("Settlement") which was finally approved by the Court on February 11, 2014. On February 12, 2014, the Court issued a redacted final approval order granting the Motion for Final Approval of Class Action Settlement. The Settlement became final and non-appealable on April 12, 2014. The Settlement Agreement and Plaintiffs' Request for Attorneys' Fees and Costs were approved by the Court, and the Company paid the Court-approved amount of attorneys’ fees and costs in April 2014. The Company also made certain payments to surrendered and annuitized policyholders in June 2014. In addition, the Company agreed to provide bonuses on annuitization for active policyholders who choose a 10-year or a 20-year certain and life settlement option. The Company had held reserves of $6.5 million for the matter which approximated the ultimate settlement amounts described above.

In addition to the class action lawsuit described above, the Company was the named defendant in the case of Sheila Newman vs. National Western Life Insurance Company, which alleged mishandling of policyholder funds by an agent. On February 3, 2010, the 415th Judicial District Court of Parker County in Weatherford, Texas, entered a Final Judgment against the Company of approximately $208,000 including actual damages of $113,000 and amounts for attorney's fees, and prejudgment interest on the actual damages. In addition, the Final Judgment included $150 million for exemplary damages. The Company vigorously defended this case and appealed the Final Judgment to the Court of Appeals Second District of Texas in Fort Worth. The Court of Appeals on August 11, 2011, reversed the trial court judgment in its entirety and rendered a take nothing verdict in favor of National Western. Plaintiffs (Appellees) filed a motion for a rehearing which the Court ruled on October 13, 2011, that the trial court's judgment was still reversed and judgment was still entered that Newman take nothing, all in favor of National Western. The Plaintiffs (Appellees) filed a Motion for Reconsideration En Banc which the Court of Appeals denied on October 27, 2011. The Plaintiffs (Appellees) then filed a Motion for Rehearing of the Court's amended decision, which the Court of Appeals denied on December 22, 2011. On March 21, 2012, Plaintiffs (Appellees) filed a petition for review with the Texas Supreme Court and the Company filed its response on April 20, 2012. The Supreme Court asked the parties for briefs on the issues before deciding on whether to hear the case and both parties submitted their briefs. On February 14, 2013, the Supreme Court denied the Plaintiffs petition for review. On April 3, 2013, Plaintiff filed a Motion for Rehearing. The Supreme Court denied Plaintiff's Motion for Rehearing on June 7, 2013, thus ending the matter.

On October 26, 2011 the Brazilian Superintendence of Private Insurance (“SUSEP”) attempted to serve the Company with a subpoena regarding an administrative proceeding initiated by SUSEP in which it alleged that the Company was operating as an insurance company in Brazil without due authorization. The Company had been informed that SUSEP was attempting to impose a penal fine of approximately $6.0 billion on the Company. SUSEP unsuccessfully attempted to serve the Company with notice regarding this matter. The Company does not transact business in Brazil and has no officers, employees, property, or assets in Brazil. The Company believes that SUSEP has no jurisdiction over the Company, that SUSEP's attempts at service of process were invalid, and that any penal fine would be unenforceable. For the reasons described above, the Company does not believe that this matter meets the definition of a material pending legal proceeding as such term is defined in Item 103 of Regulation S-K but has included the foregoing description solely due to the purported amount of the fine sought at that time.

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

Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from such other potential, pending, or threatened legal actions will have a material adverse effect on the financial condition or operating results of the Company.

Separately, the Company has recently become aware that the Brazilian authorities have commenced an investigation into possible violations of Brazilian criminal law in connection with the issuance of the Company's insurance policies to Brazilian residents, and in assistance of such investigation a Commissioner appointed by the U.S. District Court for the Western District of Texas has issued a subpoena upon the Company to provide information relating to such possible violations. Because the Company has only recently become aware of this investigation, no conclusion can be drawn at this time as to its outcome or how such outcome may impact the Company's business, results of operations or financial condition. The Company plans to cooperate with the relevant governmental authorities in regard to this matter.

(B) Financial Instruments

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

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

The Company had no commitments to extend credit relating to mortgage loans at March 31, 2015. The Company evaluates each customer's creditworthiness on a case-by-case basis.

(9) INVESTMENTS

(A) Investment Gains and Losses

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Available for sale debt securities:		
Realized gains on disposal	$213	692

Realized losses on disposal	(9)	(8)
Held to maturity debt securities:	—	
Realized gains on disposal	724	782
Realized losses on disposal	—	(11)
Equity securities realized gains (losses)	50	4
Real estate gains (losses)	—	89
Totals	$978	1,548

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The Company uses the specific identification method in computing realized gains and losses. Approximately 75% of the gains on bonds are due to calls of securities rather than sales. This includes calls out of the Company's available for sale portfolio of debt securities.

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

	Three Months Ended March 31, 2015 (In thousands)	2014
Total other-than-temporary impairment gains (losses) on debt securities	$160	(4)
Portion of loss (gain) recognized in comprehensive income	(160)	(3)
Net impairment losses on debt securities recognized in earnings	—	(7)
Equity securities impairments	—	(28)
Totals	$—	(35)

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

	Three months ended March 31, 2015	Twelve Months Ended December 31, 2014
Beginning balance, cumulative credit losses related to other-than-temporary impairments	$2,298	2,472
Reductions for securities sold during current period	(20)	(181)
Additions for credit losses not previously recognized in other-than-temporary impairments	—	7
Ending balance, cumulative credit losses related to other-than-temporary impairments	$2,278	2,298

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(B) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at March 31, 2015.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$15,047	634	—	15,681
U.S. Treasury	1,921	414	—	2,335
States and political subdivisions	436,398	35,935	(250)	472,083
Foreign governments	—	—	—	—
Public utilities	975,817	78,915	(68)	1,054,664
Corporate	3,975,303	226,933	(4,642)	4,197,594
Mortgage-backed	1,614,749	86,462	(1,403)	1,699,808
Home equity	18,704	4,614	—	23,318
Manufactured housing	4,294	356	—	4,650
Totals	$7,042,233	434,263	(6,363)	7,470,133

The table below presents amortized costs and fair values of securities available for sale at March 31, 2015.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$588	—	(35)	553
Foreign governments	9,941	684	—	10,625
Public utilities	164,169	10,580	—	174,749
Corporate	2,441,317	152,193	(5,538)	2,587,972
Mortgage-backed	45,563	4,177	—	49,740
Home equity	11,577	213	(13)	11,777
Manufactured housing	1,606	53	—	1,659
	2,674,761	167,900	(5,586)	2,837,075
Equity securities	12,807	4,964	(156)	17,615
Totals	$2,687,568	172,864	(5,742)	2,854,690

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The table below presents amortized costs and fair values of securities held to maturity at December 31, 2014.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$10,061	705	—	10,766
U.S. Treasury	1,920	409	—	2,329
States and political subdivisions	432,186	31,417	(336)	463,267
Public utilities	978,847	67,836	(757)	1,045,926
Corporate	3,754,222	183,650	(18,591)	3,919,281
Mortgage-backed	1,640,582	68,726	(4,164)	1,705,144
Home equity	18,886	4,734	(57)	23,563
Manufactured housing	4,839	328	—	5,167
Totals	$6,841,543	357,805	(23,905)	7,175,443

The table below presents amortized costs and fair values of securities available for sale at December 31, 2014.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$589	—	(36)	553
Foreign governments	9,939	386	—	10,325
Public utilities	169,179	10,163	(126)	179,216
Corporate	2,334,700	128,280	(8,961)	2,454,019
Mortgage-backed	48,674	4,116	—	52,790
Home equity	11,702	225	(9)	11,918
Manufactured housing	2,492	64	—	2,556
	2,577,275	143,234	(9,132)	2,711,377
Equity securities	12,799	4,849	(345)	17,303
Totals	$2,590,074	148,083	(9,477)	2,728,680

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at March 31, 2015.

	Securities 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:						
States and political subdivisions	$—	—	13,220	(250)	13,220	(250)
Public utilities	2,003	(5)	18,445	(63)	20,448	(68)
Corporate	99,277	(1,080)	308,553	(3,562)	407,830	(4,642)
Mortgage-backed	30,877	(159)	88,592	(1,244)	119,469	(1,403)
Total temporarily impaired securities	$132,157	(1,244)	428,810	(5,119)	560,967	(6,363)

The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at March 31, 2015.

	Securities 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:						
States and political subdivisions	$—	—	553	(35)	553	(35)
Public utilities	—	—	—	—	—	—
Corporate	104,238	(2,401)	116,966	(3,137)	221,204	(5,538)
Home equity	—	—	4,822	(13)	4,822	(13)
	104,238	(2,401)	122,341	(3,185)	226,579	(5,586)
Equity public	598	(106)	1,545	(50)	2,143	(156)
Total temporarily impaired securities	$104,836	(2,507)	123,886	(3,235)	228,722	(5,742)

Unrealized losses for securities held to maturity and securities available for sale decreased during the first three months of 2015 due primarily to the decline in market interest rates. The Company does not consider investments with unrealized losses to be other-than-temporarily impaired since it does not anticipate selling these securities prior to maturity and expects to receive all amounts due relative to principal and interest.

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The Company does not consider securities to be other-than-temporarily impaired when the market decline is attributable to factors such as interest rate movements, market volatility, liquidity, spread widening and credit quality and when recovery of all amounts due under the contractual terms of the security is anticipated. Based on the review and the Company's ability and intent not to sell these securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2015. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

During the first quarter of 2015, the Company recorded no other-than-temporary impairment on debt or equity securities.

Debt securities. The gross unrealized losses for debt securities are made up of 109 individual issues, or 8.2% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 98.5%. Of the 109 securities, 77, or 70.6%, fall in the 12 months or greater aging category; and 106 were rated investment grade at March 31, 2015.

Equity securities. The gross unrealized losses for equity securities are made up of 23 individual issues. These holdings are reviewed quarterly for impairment.

The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2014.

	Securities 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:						
States and political subdivisions	$—	—	23,076	(336)	23,076	(336)
Public utilities	7,078	(13)	48,198	(744)	55,276	(757)
Corporate	156,839	(2,997)	698,316	(15,594)	855,155	(18,591)
Mortgage-backed	17,698	(240)	181,694	(3,924)	199,392	(4,164)
Home equity	2,206	(57)	—	—	2,206	(57)
Total temporarily impaired securities	$183,821	(3,307)	951,284	(20,598)	1,135,105	(23,905)

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The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2014.

	Securities 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:						
States and political subdivisions	$—	—	553	(36)	553	(36)
Public utilities	—	—	14,827	(126)	14,827	(126)
Corporate	100,373	(2,990)	187,699	(5,971)	288,072	(8,961)
Home equity	—	—	4,826	(9)	4,826	(9)
	100,373	(2,990)	207,905	(6,142)	308,278	(9,132)
Equity public	305	(52)	3,801	(293)	4,106	(345)
Total temporarily impaired securities	$100,678	(3,042)	211,706	(6,435)	312,384	(9,477)

(C) Transfer of Securities

During the three months ended March 31, 2015 and 2014, the Company made no transfers to the held to maturity category from securities available for sale.

(D) Mortgage Loans

A financing receivable is a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in a company's statement of financial position. Mortgage, equity, participation and mezzanine loans on real estate are considered financing receivables reported by the Company.

Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lease payments and also by the borrower. This approach has proven to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status. If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any revenue into the Condensed Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company had no mortgage loans past due 90 days or more at March 31, 2015 or 2014 and as a result all interest income was recognized at March 31, 2015 or 2014.

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The following table represents the mortgage loan portfolio by loan-to-value ratio.

	March 31, 2015 Amount (In thousands)	%	December 31, 2014 Amount (In thousands)	%
Mortgage Loans by Loan-to-Value Ratio (1):				
Less than 50%	$47,448	32.8	$52,564	35.0
50% to 60%	49,388	34.2	50,553	33.7
60% to 70%	20,115	13.9	14,567	9.7
70% to 80%	7,934	5.5	12,656	8.4
80% to 90%	19,683	13.6	5,399	3.6
Greater than 90%	—	—	14,414	9.6
Gross balance	144,568	100.0	150,153	100.0
Allowance for possible losses	(650)	(0.5)	(650)	(0.4)
Totals	$143,918	99.5	$149,503	99.6

(1) Loan-to-Value Ratio determined using the most recent appraised value. Appraisals are required at the time of funding and may be updated if a material change occurs from the original loan agreement.

The mortgage loans in the greater than 90% category relate to loans made with a long standing borrower. The loans are backed by the investment property, contracted leases, as well as a separate and additional guarantee of the long standing borrower.

All mortgage loans are analyzed quarterly in order to monitor the financial quality of these assets. Based on ongoing monitoring, mortgage loans with a likelihood of becoming delinquent are identified and placed on an internal "watch list". Among the criteria that may indicate a potential problem include: major tenant vacancies or bankruptcies, late payments, and loan relief/restructuring requests. The mortgage loan portfolio is analyzed for the need for a valuation allowance on any loan that is on the internal watch list, in the process of foreclosure or that currently has a valuation allowance.

Mortgage loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When it is determined that a loan is impaired, a loss is recognized for the difference between the carrying amount of the mortgage loan and the estimated value reduced by the cost to sell. Estimated value is typically based on the loan's observable market price or the fair value of the collateral less cost to sell. Impairments and changes in the valuation allowance are reported in net realized investment gains (losses) in the Condensed Consolidated Statements of Earnings.

The following table represents the mortgage loan allowance.

	March 31, 2015 (In thousands)	December 31, 2014

Balance, beginning of period	$650	650
Provision	—	—
Releases	—	—
Balance, end of period	$650	650

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(10) FAIR VALUES OF FINANCIAL INSTRUMENTS

For financial instruments the FASB provides guidance which defines fair value, establishes a framework for measuring fair value under GAAP, and requires additional disclosures about fair value measurements. In compliance with this GAAP guidance, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the required 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 are 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), and preferred stock. 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’s assumptions about the assumptions market participants would use in pricing an asset or liability. The Company’s Level 3 assets are over-the-counter derivative contracts and the Company’s Level 3 liabilities consist of share-based compensation obligations and certain product-related embedded derivatives. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

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

	March 31, 2015			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$2,837,075	—	2,837,075	—

Equity securities, available for sale	17,615	17,059	556	—
Derivatives, index options	95,987	—	—	95,987
Total assets	$2,950,677	17,059	2,837,631	95,987
Policyholder account balances (a)	$111,627	—		111,627
Other liabilities (b)	8,360	—	—	8,360
Total liabilities	$119,987	—	—	119,987

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During the three months ended March 31, 2015, the Company had no transfers into or out of Levels 1, 2 or 3.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$2,711,377	—	2,711,377	—
Equity securities, available for sale	17,303	16,862	441	—
Derivatives, index options	114,287	—	—	114,287
Total assets	$2,842,967	16,862	2,711,818	114,287
Policyholder account balances (a)	$133,236	—		133,236
Other liabilities (b)	9,256	—	—	9,256
Total liabilities	$142,492	—	—	142,492

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

The following tables present, by pricing source and fair value hierarchy level, the Company's assets that are measured at fair value on a recurring basis:

	March 31, 2015			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale:				
Priced by third-party vendors	$2,837,075	—	2,837,075	—
Priced internally	—	—	—	—
Subtotal	2,837,075	—	2,837,075	—
Equity securities, available for sale:				
Priced by third-party vendors	17,615	17,059	556	—
Priced internally	—	—	—	—
Subtotal	17,615	17,059	556	—
Derivatives, index options:				
Priced by third-party vendors	95,987	—	—	95,987
Priced internally	—	—	—	—
Subtotal	95,987	—	—	95,987
Total	$2,950,677	17,059	2,837,631	95,987
Percent of total	100.0 %	0.6 %	96.1 %	3.3 %

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	December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale:				
Priced by third-party vendors	$2,711,377	—	2,711,377	—
Priced internally	—	—	—	—
Subtotal	2,711,377	—	2,711,377	—
Equity securities, available for sale:				
Priced by third-party vendors	17,303	16,862	441	—
Priced internally	—	—	—	—
Subtotal	17,303	16,862	441	—
Derivatives, index options:				
Priced by third-party vendors	114,287	—	—	114,287
Priced internally	—	—	—	—
Subtotal	114,287	—	—	114,287
Total	$2,842,967	16,862	2,711,818	114,287
Percent of total	100.0 %	0.6 %	95.4 %	4.0 %

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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 March 31, 2015				
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	Derivatives, Index Options	Total Assets	Other Liabilities
Balance at January 1, 2015	$—	—	114,287	114,287	142,492
Total realized and unrealized gains (losses):					
Included in net income	—	—	(8,287)	(8,287)	(12,383)
Included in other comprehensive income	—	—	—	—	—
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	18,456	18,456	18,456
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	—	—	(28,469)	(28,469)	(28,578)
Transfers into (out of) Level 3	—	—	—	—	—
Balance at end of period	$—	—	95,987	95,987	119,987
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period:					
Net investment income	$—	—	(6,843)	(6,843)	—
Benefits and expenses	—	—	—	—	(787)
Total	$—	—	(6,843)	(6,843)	(787)

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	For the Three Months ended March 31, 2014				
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	Derivatives, Index Options	Total Assets	Other Liabilities
Balance at January 1, 2014	$—	—	169,314	169,314	193,338
Total realized and unrealized gains (losses):					
Included in net income	—	—	548	548	2,651
Included in other comprehensive income	—	—	—	—	—
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	15,337	15,337	15,337
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	—	—	(50,283)	(50,283)	(50,790)
Transfers into (out of) Level 3	—	—	—	—	—
Balance at end of period	$—	—	134,916	134,916	160,536
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period:					
Net investment income	$—	—	2,821	2,821	—
Benefits and expenses	—	—	—	—	1,667
Total	$—	—	2,821	2,821	1,667

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The following tables show the quantitative information about the Company's level 3 assets and liabilities.

	March 31, 2015 Fair Value (In thousands)	Valuation Technique	Unobservable Input
Derivatives, index options	$95,987	Broker prices	Implied volatility Inputs from broker proprietary models
Total assets	$95,987		
Policyholder account balances	$111,627	Deterministic cash flow model	Projected option cost
Other liabilities	8,360	Black-Scholes model	Expected term Forfeiture assumptions
Total liabilities	$119,987		

	December 31, 2014 Fair Value (In thousands)	Valuation Technique	Unobservable Input
Derivatives, index options	$114,287	Broker prices	Implied volatility Inputs from broker proprietary models
Total assets	$114,287		
Policyholder account balances	$133,236	Deterministic cash flow model	Projected option cost
Other liabilities	9,256	Black-Scholes model	Expected term Forfeiture assumptions
Total liabilities	$142,492		

Realized gains (losses) on debt and equity securities are reported in the Condensed 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 the stockholders' equity of the Condensed Consolidated Balance Sheet.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

	March 31, 2015				
			Fair Value Hierarchy Level		
	Carrying Values	Fair Values	Level 1	Level 2	Level 3
	(In thousands)				
ASSETS					
Investments in debt and equity securities:					
Securities held to maturity	$7,042,233	7,470,133	—	7,470,133	—
Securities available for sale	2,854,690	2,854,690	17,059	2,837,631	—
Cash and cash equivalents	71,104	71,104	71,104	—	—
Mortgage loans	143,918	150,600	—	—	150,600
Policy loans	63,877	117,948	—	—	117,948
Other loans	2,592	2,792	—	—	2,792
Derivatives, index options	95,987	95,987	—	—	95,987
Short-term investments	14,989	14,989	—	14,989	—
Life interest in Trust	—	12,775	—	—	12,775
LIABILITIES					
Deferred annuity contracts	$7,546,484	7,160,752	—	—	7,160,752
Immediate annuity and supplemental contracts	444,216	477,219	—	—	477,219

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	December 31, 2014				
			Fair Value Hierarchy Level		
	Carrying Values	Fair Values	Level 1	Level 2	Level 3
	(In thousands)				
ASSETS					
Investments in debt and equity securities:					
Securities held to maturity	$6,841,543	7,175,443	—	7,175,443	—
Securities available for sale	2,728,680	2,728,680	16,862	2,711,818	—
Cash and cash equivalents	277,078	277,078	277,078	—	—
Mortgage loans	149,503	156,548	—	—	156,548
Policy loans	63,645	111,040	—	—	111,040
Other loans	2,171	2,300	—	—	2,300
Derivatives, index options	114,287	114,287	—	—	114,287
Life interest in Trust	—	12,775	—	—	12,775
LIABILITIES					
Deferred annuity contracts	$7,546,504	7,178,535	—	—	7,178,535
Immediate annuity and supplemental contracts	446,458	474,843	—	—	474,843

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-index 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 Condensed 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 and 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-index 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 may be paid to the Company depending on the performance of the underlying index or indices and terms of the contract.

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The Company does not elect hedge accounting relative to these derivative instruments. The index options are reported at fair value in the accompanying condensed 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 Statements of Earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the Condensed Consolidated Statements 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 Statements of Earnings.

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any of its 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.

The tables below present the fair value of derivative instruments as of March 31, 2015 and December 31, 2014, respectively.

	March 31, 2015			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	$95,987		
Fixed-index products			Universal Life and Annuity Contracts	$111,627
Total		$95,987		$111,627

	December 31, 2014			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options		$114,287		

	Derivatives, Index Options			
Fixed-index products			Universal Life and Annuity Contracts	$133,236
Total		$114,287		$133,236

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
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The table below presents the effect of derivative instruments in the Condensed Consolidated Statements of Earnings for the three months ended March 31, 2015 and 2014.

Derivatives Not Designated As Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivatives	March 31, 2015	March 31, 2014
		Amount of Gain or (Loss) Recognized in Income on Derivatives (In thousands)	
Equity index options	Net investment income	$(8,287)	548
Fixed-index products	Universal life and annuity contract interest	11,596	(984)
		$3,309	(436)

(12) SUBSEQUENT EVENTS

On April 6, 2015, the Company, National Western Life Group, Inc., a Delaware corporation and wholly-owned subsidiary of the Company (“Newco”), and NWLIC MergerCo, Inc., a Colorado corporation and wholly-owned subsidiary of Newco (“MergerCo”), entered into an Agreement and Plan of Merger (the “Reorganization Agreement”), that provides for the merger (the “Merger”) of the Company with MergerCo, with the Company surviving the Merger as a wholly-owned subsidiary of Newco. The Merger provides for the conversion of each share of Class A common stock, par value $1.00per share, of the Company and each share of Class B common stock, par value $1.00 per share, of the Company issued and outstanding immediately prior to the effective time of the Merger, into one duly issued, fully paid and non-assessable share of Class A common stock, par value $0.01 per share, of Newco ("Newco Class A Stock") or Class B common stock, par value $0.01 per share, of Newco, respectively (collectively with the other transactions contemplated by the Reorganization Agreement, the “Reorganization”). In addition, each outstanding option to acquire, or SARs relating to, shares of the Company's Class A Stock would automatically convert into an option to acquire, or SARs relating to, on the same terms and conditions, an identical number of shares of Newco Class A Stock.

Upon completion of the Reorganization, Newco, a Delaware corporation, would, in effect, replace the Company, a Colorado corporation, as the publicly held corporation traded on the NASDAQ Global Select Market under the symbol “NWLI”, and the holders of the Company's Class A Stock and Class B Stock would hold the same number of shares and same ownership percentage
of Newco after the Reorganization as they held of the Company immediately prior to the Reorganization. The directors of Newco immediately following the Reorganization would be the same individuals who were directors of the Company immediately prior to the Reorganization.

The Reorganization Agreement is subject to specified conditions, including approval by the Company's shareholders at its Annual Meeting of Shareholders (the “Annual Meeting”), which is currently scheduled for Friday, June 19, 2015.

If approved by the Company's shareholders at the Annual Meeting and the other conditions set forth in the Reorganization Agreement are satisfied, it is currently expected that the Reorganization would be completed in the latter part of 2015.

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

FORWARD-LOOKING STATEMENTS

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

Management's discussion and analysis of the financial condition and results of operations (“MD&A”) of National Western Life Insurance Company for the three months ended March 31, 2015 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 and with the 2014 Annual Report filed on Form 10-K with the SEC.

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 contract holders, both domestically and internationally. The Company accepts funds from policyholders or contract-holders 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 and the underlying economics, the relevant factors affecting the Company’s business and profitability include the following:

- the level of sales and premium revenues collected
- persistency of policies and contracts
- returns on investments sufficient to produce acceptable spread margins over interest crediting rates
- investment credit quality which minimizes the risk of default or impairment
- levels of policy benefits and costs to acquire business
- the level of operating expenses
- effect of interest rate changes on revenues and investments including asset and liability matching
- maintaining adequate levels of capital and surplus
- actual levels of surrenders, withdrawals, claims and interest spreads
- changes in assumptions for amortization of deferred policy acquisition expenses and deferred sales inducements
- changes in the fair value of derivative index options and embedded derivatives pertaining to fixed-index life and annuity products
- pricing and availability of adequate reinsurance
- litigation subject to unfavorable judicial development, including the time and expense of litigation

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 2 includes these indicators and presents information useful to an overall understanding of the Company's business performance for the three months ended March 31, 2015, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

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Insurance Operations - Domestic

The Company is currently licensed to do business in all states and the District of Columbia except for New York. Products marketed are annuities, universal life insurance, fixed-index 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-index annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At March 31, 2015, the Company maintained approximately 138,500 annuity contracts in force and 55,300 domestic life insurance policies in force representing $3.2 billion in face amount of coverage.

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's agents are independent contractors who are compensated on a commission basis. The Company currently has approximately 18,500 domestic independent agents contracted. Roughly 15% of these contracted agents have submitted policy applications to the Company in the past twelve months.

Insurance Operations - International

The Company's international clientèle consists mainly of 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 based upon applications received in the Company's home office in Austin, Texas. 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 March 31, 2015, the Company had approximately 70,500 international life insurance policies in force representing approximately $19.9 billion in face amount of coverage.

International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 2,200 independent international consultants and brokers currently contracted, 43% 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 excess of fifty years of experience with the international products and its longstanding independent consultant and broker-agent relationships further serve to minimize risks.

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SALES

Life Insurance

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
International:		
Universal life	$685	1,155
Traditional life	837	965
Equity-index life	3,164	3,433
	4,686	5,553
Domestic:		
Universal life	18	10
Traditional life	99	39
Equity-index life	3,991	3,447
	4,108	3,496
Totals	$8,794	9,049

Life insurance sales as measured by annualized first year premiums decreased 3% in the first quarter of 2015 as compared to the first quarter of 2014. By market segment, the domestic life insurance line of business posted an 18% increase over the comparable results during the first quarter of 2014 while international life sales decreased 16% during the same time frame.

Equity-index universal life products continue to be the predominant product sold in the domestic life market. Most of these sales are single premium mode products (one year. five year, or ten year) designed for transferring accumulated wealth tax efficiently into life insurance policies with limited underwriting due to lesser net insurance amounts at risk (face amount of the insurance policy less cash premium contributed). The Company began offering graded death benefit whole life and term insurance (traditional) products on a trial basis through a contracted distributor and intends to make these products available to all contracted agents by the middle of 2015.

The Company's international life business consists of applications accepted from residents of 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. During the first quarter of 2015, applications submitted by residents outside of the United States, representing future potential sales, increased 8% over the comparable period in 2014. In addition to normal underwriting procedures, delays in issuing policies for accepted applications often occur due to the time involved in acquiring U.S. dollars for premium payment by the applicant.

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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. 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.

	Three Months Ended March 31,			
	2015		2014	
Percentage of International Sales:				
Latin America	87.2	%	83.6	%
Pacific Rim	9.4		10.8	
Eastern Europe	3.4		5.6	
Totals	100.0	%	100.0	%

Year-to-date, the Company has accepted new business from residents outside of the United States in over thirty different countries with Venezuela (21%), Peru (17%), and Brazil (14%) comprising the largest contributions. Sales to residents of Venezuela and Peru increased in the first three months of 2015 compared to the same period in 2014 while sales to residents of Brazil declined during the same period.

The Company's domestic operations life product portfolio include single premium universal life ("SPUL") and equity-index universal life ("EIUL") products as well as hybrids of the EIUL and SPUL products, combining features of these core products. These life insurance products were designed to facilitate the wealth transfer of accumulated savings of the Baby Boomer segment of the population entering their retirement years, via systematic funding mechanisms such as single premium immediate annuities. The wealth transfer life products have been valuable offerings for the Company's distributors as evidenced by comprising 97% of total domestic life sales in the first three months of 2015.

The Company's domestic life product portfolio including the wealth transfer products has gradually increased the average new policy face amount since the Company implemented commission caps on domestic policies in 2009 as shown in the following table.

	Average New Policy Face Amount	
	Domestic	International
Year ended December 31, 2009	201,400	315,300
Year ended December 31, 2010	164,800	338,600
Year ended December 31, 2011	178,500	363,600
Year ended December 31, 2012	254,900	380,200
Year ended December 31, 2013	286,000	384,000
Year ended December 31, 2014	286,600	382,600
Three months ended March 31, 2015	271,100	353,500

The Company's efforts are directed toward maintaining its competitive advantages in accepting applications from upper socio-economic residents of international countries and to its wealth transfer strategies for domestic life sales. In both of these strategies the Company's portfolio of fixed-index (equity indexed) life insurance products plays an important role. Fixed-index life products accounted for 81% of total life sales in the first three months of 2015, as compared to 76% for the same period in 2014.

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

	Insurance In Force as of March 31,	
	2015	2014
	($ in thousands)	
Universal life:		
Number of policies	50,070	53,270
Face amounts	$6,726,330	6,999,300
Traditional life:		
Number of policies	36,870	38,570
Face amounts	$3,590,130	3,471,050
Fixed-index life:		
Number of policies	38,880	36,720
Face amounts	$9,758,750	9,219,240
Rider face amounts	$3,016,870	2,782,230
Total life insurance:		
Number of policies	125,820	128,560
Face amounts	$23,092,080	22,471,820

At March 31, 2015, the Company’s face amount of life insurance in force was comprised of $19.9 billion from the international line of business and $3.2 billion from the domestic line of business. At March 31, 2014, these amounts were $19.6 billion and $2.9 billion for the international and domestic lines of business, respectively.

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 March 31,	
	2015	2014
	(In thousands)	
Fixed-index annuities	$154,362	154,562
Other deferred annuities	12,878	12,993
Immediate annuities	957	2,660
Totals	$168,197	170,215

Annuity sales in the first quarter of 2015 were 1% lower than in the first quarter of 2014. Annuity sales in the first three months of 2015 are generally in line with the Company's projected sales goal for the year of $800 million as the first quarter of the calendar year is typically the slowest sales period.

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The recessionary contraction and financial market crisis that began in the latter half of 2007 and persisted into 2009 impacted many annuity carriers. Losses from investment impairments and equity exposure (for insurers with variable annuity product offerings) crippled the capital position of numerous companies and limited their ability to write new business. In contrast, the Company's substantial capital position attained through profitable operations and limited investment loss exposure positioned it to write additional levels of annuity business. During 2010 and 2011, the Company sold approximately $1.4 billion of annuity products per year indicative of the Company's enhanced competitive position in the marketplace.

Under the auspices of the Company's enterprise risk management (ERM) processes, in 2012 Company management evaluated the potential ramifications of continuing a high level of annuity sales in the depressed interest rate environment precipitated by the "quantitative easing" programs enacted by the Federal Reserve and the European debt crisis. Taken into consideration has been the Federal Reserve's ongoing announced intention to maintain interest rates at historically reduced levels over several years. While the Company does not subsidize its interest crediting rates on new policies in order to obtain market share, the Company's ERM considerations determined that managing to a lower level of annuity sales was prudent given the environment.

The Company's mix of annuity sales have historically shifted with interest rate levels and the relative performance of the equity market. Over the past several years, sales of fixed-index products have accounted for 60% to 90% of all annuity sales. During the first three months of 2015 this percentage reached 92% reflecting the ongoing bull market run in equities since bottoming out in 2009 and the persisting low level of fixed interest rates. For all fixed-index products, the Company purchases over the counter options to hedge the equity return feature. The options are purchased relative to the issuance of the annuity contracts in such a manner to minimize timing risk. Generally, the index return during the indexing period (if the underlying index increases) becomes a component in a formula (set forth in the annuity), the result of which is credited as interest to contract holders electing the index formula crediting method at the beginning of the indexing period. The formula result can never be less than zero with these products. The Company does not deliberately mismatch or under hedge for the equity feature of the products. Fixed-index products also provide the contract holder the alternative to elect a fixed interest rate crediting option.

The level of annuity business in force requires a focused discipline on asset/liability analysis. The Company monitors its asset/liability matching within the self-constraints of desired capital levels and risk tolerance. Despite the amounts of new business generated over the past several years, the Company's capital level remains substantially above industry averages and regulatory targets. Management has performed analyses of the capital strain associated with incrementally higher levels of annuity new business and determined that the Company's capital position is more than sufficient to handle increased sales activity.

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

	Annuities In Force as of March 31,	
	2015	2014
	($ in thousands)	
Fixed-index annuities		
Number of policies	69,580	65,190
GAAP annuity reserves	$5,277,013	4,851,514
Other deferred annuities		
Number of policies	52,230	57,430
GAAP annuity reserves	$2,227,560	2,420,964

Immediate annuities		
Number of policies	16,700	16,700
GAAP annuity reserves	$366,685	376,217
Total annuities		
Number of policies	138,510	139,320
GAAP annuity reserves	$7,871,258	7,648,695

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Impact of Recent Business Environment

The Company's business is generally aided by an economic environment undergoing expansion, whether moderate or vibrant. Conversely, a muted economic recovery could adversely impact the demand for the Company's products. The recent announcement of preliminary first quarter U.S. GDP growth of less than 1% portrayed a domestic economy not conviningly back on solid footing. Although the Federal Reserve has officially ended their stimulus initiatives, a good level of uncertainty remains as to how much longer they will hold short-term interest rates near zero given the lethargic economic activity in the first three months of the calendar year.

U.S. economic data still presents a mixture of positive and negative indicators. From a positive perspective, the housing industry continues its steady but upward trend and consumer confidence is moving very closely in tandem with this direction. The fall in energy prices has provided consumers with an extra purchasing resource which will likely find its way into the economy through consumption expenditures. Conversely, corporate earnings have been negatively impacted by the strength of the U.S. Dollar which may in turn put a constraint on future job growth. As the Federal Reserve considers the possibility of raising interest rates, the potential of an increase in market volatility exists given the uncertainty surrounding the resultant effects.

Industry analysts and observers generally agree that a sudden jump in interest rate levels would be harmful to life insurers with interest-sensitive products as it could provide an impetus for abnormal levels of product surrenders and withdrawals at the same time fixed debt securities held by insurers declined in market value. It is generally held that a move up to 100 basis points would not be sufficient to drive the policyholder behavior in this direction. However, a relatively quick expansion of 200 to 300 basis points in rates may increase the potential for incremental policy lapses. Observers of credit markets increasingly predict an eventual rise in yields and speculate as to what may be the circumstance reversing the course of lower rates. Sentiment at the present time is that the conditions for a sudden increase in rates are not evident or on the near-term horizon. Irrespective, it is uncertain what direction and at what pace interest rate movements may occur in the future and what impact, if any, such movements would have on the Company's business, results of operations, cash flows or financial condition.

Our operating strategy continues to be to maintain capital levels substantially above regulatory and rating agency requirements. Our business model is predicated upon steady growth in invested assets while managing the block of business within profitability objectives. A key premise of our financial management is maintaining a high quality investment portfolio, well matched in terms of duration with the Company's policyholder obligations, that continues to outperform the industry with respect to adverse impairment experience. This discipline enables the Company to sustain resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.

RESULTS OF OPERATIONS

The Company's condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivative and realized investment gains and losses from operating revenues. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates derivative and realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business. Therefore, in the following sections discussing condensed consolidated operations and segment operations, appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the condensed consolidated financial statements.

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Consolidated Operations

Revenues. The following details Company revenues.

	Three Months Ended March 31, 2015	2014
	(In thousands)	
Universal life and annuity contract charges	$37,313	38,005
Traditional life premiums	4,347	4,271
Net investment income (excluding derivatives)	108,210	107,903
Other revenues	5,329	5,763
Operating revenues	155,199	155,942
Derivative gain (loss)	(8,287)	548
Net realized investment gains (losses)	978	1,513
Total revenues	$147,890	158,003

Universal life and annuity contract charges - Revenues for universal life and annuity contracts were slightly lower for the first three months in 2015 compared to 2014 primarily due to a decrease in surrender charge fees recognized. Revenues for universal life and annuity products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums, as shown in the following table.

	Three Months Ended March 31, 2015	2014
	(In thousands)	
Contract Revenues:		
Cost of insurance and administrative charges	$33,004	31,741
Surrender charges	8,947	9,890
Other charges	(722)	303
Gross contract revenues	41,229	41,934
Reinsurance premiums	(3,916)	(3,929)
Net contract revenues	$37,313	38,005

Cost of insurance charges typically trend with the size of the life insurance block in force and the amount of new business issued during the period. Life insurance in force during the three months ended March 31, 2015 averaged approximately $23.1 billion while for the same period of 2014 averaged $22.4 billion. Accordingly, for the three months ended March 31, 2015, cost of insurance charges increased to $26.2 million from $25.3 million at March 31, 2014. Administrative charges pertaining to new business issued increased to $6.8 million from $6.5 million for the three months ended March 31, 2015 versus March 31, 2014 primarily due to a 21% increase in domestic life insurance policies issued.

Surrender charges assessed against policyholder account balances upon withdrawal declined 27% in the first quarter of 2015 versus the comparable prior year period. While the Company earns surrender charge income that is assessed upon policy terminations, the Company's overall profitability is enhanced when policies remain in force, additional contract revenues are realized and the Company continues to make an interest rate spread on outstanding policyholder account balances (the difference between what is earned on invested assets and the amount credited to policyholders). In the first three months of 2015, lapse rates on life insurance and annuity policies were consistent with the prior year. The decrease in surrender charge income recognized in the current quarter reflects a change in the duration of policies at the time of surrender with later duration policy surrenders having a lower surrender charge assessed.

Traditional life and annuity premiums - Traditional life and annuity premiums increased slightly in the first three months of 2015 compared to the same period in 2014. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. The Company began offering graded death benefit whole life and term products in its domestic markets during 2014 and is in the process of expanding the availability of this portfolio of products to contracted producers. The Company's life insurance sales focus has historically been primarily centered around universal life products. Universal life products, especially the Company's equity indexed universal life products which offer the opportunity for consumers to acquire life insurance protection and receive credited interest linked in part to an outside market index such as the S&P 500 Index®, have been more popular product offerings in the Company's markets.

Net investment income - To ensure the Company will be able to honor future commitments to policyholders and provide a financial return, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed maturity debt securities. The income from these investments is closely monitored by the Company due to its significant impact on the business. A detail of net investment income (with and without index option gains and losses) is provided below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Gross investment income:		
Debt securities	$103,227	102,521
Mortgage loans	2,706	2,293
Policy loans	952	1,083
Short-term investments	109	45
Other invested assets	1,518	2,278
Total investment income	108,512	108,220
Less: investment expenses	302	317
Net investment income (excluding derivatives)	108,210	107,903
Derivative gain (loss)	(8,287)	548
Net investment income	$99,923	108,451

For the three months ended March 31, 2015, debt securities generated approximately 95% of total investment income, excluding derivative gain (loss). The stable level of investment income from debt securities through the first quarter of 2015 versus 2014 despite higher portfolio balances in the current period reflects higher yielding debt securities maturing or being called by borrowers and being replaced with lower yielding securities in the current interest rate environment. Investment yields on new bond purchases during the first quarter of 2015 remained below the portfolio's weighted average yield. Mortgage loan investment income for the three months ended March 31, 2015 increased over the comparable period in 2014 reflecting incremental new loan volume. The Company's new mortgage loan activity has been relatively low by historical standards in recent years given the low level of rates and the higher level of risk associated with commercial properties in the current economic environment. During the three months ended March 31, 2015 the Company originated new mortgage loans in the amount of $1.3 million.

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In order to evaluate underlying profitability and results from ongoing operations, net investment income performance is analyzed excluding derivative gain (loss), which is a common practice in the insurance industry. Net investment income performance is summarized as follows.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Excluding derivatives:		
Net investment income	$108,210	107,903
Average invested assets, at amortized cost	$9,992,103	9,437,142
Annual yield on average invested assets	4.33 %	4.57 %
Including derivatives:		
Net investment income	$99,923	108,451
Average invested assets, at amortized cost	$10,097,240	9,589,257
Annual yield on average invested assets	3.96 %	4.52 %

The lower yield on average invested assets, excluding derivatives, through the first quarter of 2015 compared to 2014 is due to progressively lower yields obtained on new fixed maturity debt securities investments. During 2014, the average yield on bond purchases to fund insurance operations was 3.68% representing a 1.12% spread over treasury rates. Insurance operation bond purchases through the first quarter of 2015 had an average yield of 3.24% with spreads increasing slightly to 1.25% over treasury rates. The yield rates during both 2014 and 2015 are below the weighted average bond portfolio rate which approximated 4.36% at March 31, 2015. The weighted average quality of new purchases during the first three months was "A-", which was the same as the overall quality rating of purchases during 2014. The composite duration of purchases during the first three months of 2015 matched that for 2014 purchases. The Company's general investment strategy is to purchase securities with maturity dates approximating ten years in the future. Accordingly, an appropriate measure for benchmarking the direction of interest rate levels for the Company's debt security purchases is the ten year treasury bond rate. After ending 2014 at a rate of 2.17%, the daily closing yield of the ten year treasury bond ranged from a low of approximately 1.65% to a high of nearly 2.25% during the first three months of 2015, and ended the first calendar quarter at 1.92%.

Other revenues - Other revenues primarily pertain to the Company's two nursing home operations in Reno, Nevada and San Marcos, Texas. Revenues associated with these operations were $5.2 million and $5.5 million for the three months ended March 31, 2015 and 2014, respectively. Lower nursing home revenues reflect lower census figures at the facilities thus far in 2015.

Derivative gain (loss) - Index options are derivative financial instruments used to hedge the equity return component of the Company's fixed-index products. Derivative gain or loss includes the amounts realized from the sale or expiration of the options. Since the index options do not meet the requirements for hedge accounting under GAAP, they are marked to fair value on each reporting date and the resulting unrealized gain or loss is also reflected as a component of net investment income.

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Gains and losses from index options are due to changes in equity market conditions. Index options are intended to act as hedges to match the returns on the product's underlying reference index and the rise or decline in the index relative to the index level at the time of the option purchase which causes option values to likewise rise or decline. As income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-index products also fluctuates in a similar manner and direction. For the quarter ended March 31, 2015, the reference indices decreased and the Company recorded an overall loss from index options with substantially a corresponding decrease in contract interest expense during this period.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Derivatives:		
Unrealized gain (loss)	$(21,418)	(38,098)
Realized gain (loss)	13,131	38,646
Total gain (loss) included in net investment income	$(8,287)	548
Total contract interest	$49,039	62,936

The economic impact of option performance in the Company's financial statements is not generally determined solely by the option gain or loss included in net investment income as there is a corresponding amount recorded in the contract interest expense line. Rather, the Company's profitability with respect to these options is dependent upon the purchase cost of the option remaining within the financial budget for purchasing options embedded in the product pricing. Option prices vary with interest rates, volatility, and dividend yields among other things. As option prices vary, the Company manages for the variability by making offsetting adjustments to product caps, participation rates, and management fees. For the periods shown, the Company's option costs have been within the product pricing budgets.

Net realized investment gains (losses) - Realized gains on investments in 2015 primarily resulted from bond calls and sales. The net gains reported for the three months ended March 31, 2015 consisted of gross gains of $1.0 million offset by gross losses of $0.0 million. No other-than-temporary impairment losses were recorded during the three months ended March 31, 2015.

The Company records impairment write-downs when a decline in value is considered to be other-than-temporary and full recovery of the investment is not expected. Impairments due to credit factors are recorded in the Company's Condensed Consolidated Statements of Earnings while non-credit (liquidity) impairment losses are included in other specific statement comprehensive income (loss). Impairment and valuation write-downs reflected in the Company's Condensed Consolidated Statements of Earnings are summarized in the following table.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Impairment or valuation write-downs:		
Bonds	$—	7
Equities	—	28
Total	$—	35

As shown in the table above, the Company did not incur impairment or valuation write-downs during the quarter ended March 31, 2015, and only recognized minimal impairments during the first quarter of 2014. Equity securities (common stocks) represent 0.1% of invested assets and individual common stock holdings have an average cost basis of approximately $43,000.

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Benefits and Expenses. The following table details benefits and expenses.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Life and other policy benefits	$19,266	12,963
Amortization of deferred policy acquisition costs	27,652	28,579
Universal life and annuity contract interest	49,039	62,936
Other operating expenses	20,510	23,463
Totals	$116,467	127,941

Life and other policy benefits - Death claim benefits, the largest component of policy benefits, increased to $13.0 million year-to-date in 2015 compared to $7.6 million for the first three months of 2014. Death claim amounts are generally subject to variation from period to period and the results for the first quarter were incurred proportionally between the domestic life and international life lines of business. Company's mortality experience has generally been consistent with or better than its product pricing assumptions.

Amortization of deferred policy acquisition costs - Life insurance companies are required to defer certain expenses that vary with, and are primarily related to, the cost of acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses. Recognition of these deferred policy acquisition costs (“DPAC”) as an expense in the condensed consolidated financial statements occurs over future periods in relation to the expected emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review universal life and annuity contract assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profits pattern is to be "unlocked" and reset based upon the actual experience. DPAC balances are also adjusted each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies compared to anticipated experience (“true-up”) with the adjustment reflected in current period amortization expense. In accordance with GAAP guidance, the Company must also write-off deferred acquisition costs and unearned revenue liabilities upon internal replacement of certain contracts as well as annuitizations of deferred annuities.

The following table identifies the effects of unlocking and true-up adjustments on DPAC balances recorded through amortization expense for the three months ended March 31, 2015 and 2014.

Increase (Decrease) in DPAC Balance	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Unlocking	$1,810	—
True-up	1,420	3,890
Totals	$3,230	3,890

True-up adjustments were recorded in 2015 and 2014 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience. This resulted in a $1.4 million decrease in amortization expense for the three months ended March 31, 2015, and a $3.9 million decrease for the three months ended

March 31, 2014. The true-up adjustments for the life insurance lines of business were positive (decrease to amortization expense) by $3.5 million in the first three months of 2015 whereas the true-up adjustments for the annuity line of business during the same period were negative by $2.1 million incrementally adding to amortization expense. For the three months ended March 31, 2014, true-up adjustments for the life insurance lines of business were positive (decrease to amortization expense) by $3.9 million while true-up adjustments for the annuity line of business increased amortization expense by approximately $27,000.

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No unlocking adjustments were made by the Company in the first three months of 2014. In the quarter ended March 31, 2015, the Company unlocked the DPAC balance associated with its International Life segment for favorable mortality experience on one of its universal life products. The effect of the prospective unlocking was to increase DPAC balances by $7.1 million (and decrease amortization expense). In addition, the Company unlocked the DPAC balance associated with its annuity segment for future expense assumptions pertaining to product development override costs (trailer commissions) which it is obligated to pay certain contracted National Marketing Organizations. The effect of the prospective unlocking was to decrease DPAC balances by $5.3 million (and increase amortization expense). While the Company is required to evaluate its emergence of profits continually, management believes that the current amortization patterns of deferred policy acquisition costs, incorporating these unlocking adjustments, are reflective of actual experience.

Universal life and annuity contract interest - The Company closely monitors its credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors as described above. The difference between yields earned on investments over policy credited rates is often referred to as the "interest spread".

The Company's approximated average credited rates through the first three months, excluding and including fixed-index (derivative) products, were as follows:

	March 31, 2015		2014		March 31, 2015		2014	
	(Excluding fixed-index products)				(Including fixed-index products)			
Annuity	2.49	%	2.53	%	1.93	%	2.49	%
Interest sensitive life	3.74	%	3.81	%	2.99	%	4.61	%

Contract interest including fixed-index products also encompasses the performance of the index options associated with the Company's fixed-index products. As previously noted, the market performance of these derivative features resulted in net realized and unrealized gains of $(8.3) million and $0.5 million for the three months ended March 31, 2015 and 2014, respectively.

Similar to deferred policy acquisition costs, the Company defers sales inducements in the form of first year credited interest bonuses on annuity products that are directly related to the production of new business. These bonus interest charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. In addition, deferred sales inducement balances are also reviewed periodically to ascertain whether actual experience has deviated significantly from that assumed (unlock) and are adjusted to reflect current policy lapse or termination rates, expense levels and credited rates on policies compared to anticipated experience (true-up). These adjustments, plus or minus, are included in contract interest expense. For the three months ended March 31, 2015 and 2014, the Company recorded true-up adjustments of its deferred sales inducement balances resulting in increased (decreased) balance sheet amounts of $(0.5) million and $0.2 million, respectively, which thereby (increased) decreased contract interest expense by a like amount. The Company also unlocked its deferred sales inducement balance in the first quarter of 2015 associated with its annuity segment for future expense assumptions pertaining to product development override costs as previously discussed. The effect of the prospective unlocking was to decrease the deferred sales inducement balance by $1.8 million which increased contract interest expense by the same amount. No unlocking adjustments were made in the first quarter of 2014.

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Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, nursing home expenses and compensation costs. These expenses for the three months ended March 31, 2015 and 2014 are summarized in the table that follows.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
General insurance expenses	$7,193	6,225
Nursing home expenses	4,695	5,063
Compensation expenses	4,497	8,024
Commission expenses	2,746	2,620
Taxes, licenses and fees	1,379	1,531
Totals	$20,510	23,463

General insurance expenses include reserve provisions for potentially uncollectible receivable balances from independent contractor agents. Receivable balances from agents typically result from reversing commission balances previously paid on policies in which the policyholder subsequently exercised the right to cancel the policy under the policy contract's "free look" provision. During the first quarter of 2015, the reserve balance for agent receivables was increased by $730,000 while in the first quarter of 2014 the reserve balance was decreased $32,000.

Nursing home expenses reflect the operations of the two facilities owned by the Company. Expenses during 2015 have decreased as a result of discontinuing higher acuity services at the homes. The decline in expenses as a result of discontinuing these services has similarly decreased the revenue associated with these operations.

Compensation expenses include share-based compensation costs for the Company’s stock option plans related to outstanding vested and nonvested stock and SARs options. These costs move in tandem with the number of stock options outstanding as well as the market price of the Company's Class A common share as a result of marking the stock options to fair value under the liability method of accounting. Consequently, the related expense amount varies positively or negatively in any given period. For the three months ended March 31, 2015 share based compensation expense was $(0.8) million while for the comparable period in 2014 share based compensation expense was $1.7 million. In addition to the Company 's closing stock price dropping from $269.25 at December 31, 2014 to $254.30 at March 31, 2015, compensation costs related to share-based compensation declined during the three months ended March 31, 2015 compared to the same period in 2014 due to a lesser number of outstanding options as a result of stock option exercises and forfeitures between March 31, 2014 and March 31, 2015.

Taxes, licenses and fees include premium taxes and licensing fees paid to state insurance departments, guaranty fund assessments, the company portion of social security and Medicare taxes, and other state and municipal taxes. For the three months ended March 31, 2015 these amounts decreased from the comparable period in 2014 largely due to lower licensing fees paid to state insurance departments which were $0.3 million in the current year compared to $0.4 million in the prior year.

Federal Income Taxes. Federal income taxes on earnings from operations reflect an effective tax rate of 32.1% for the three months ended March 31, 2015 compared to 34.0% for the three months ended March 31, 2014. The Company's effective tax rate is typically lower than the Federal rate of 35% due to tax-exempt investment income related to municipal securities and dividends-received deductions on income from stocks.

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Segment Operations

Summary of Segment Earnings

A summary of segment earnings for the three and three months ended March 31, 2015 and 2014 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Segment earnings (losses):					
Three months ended:					
March 31, 2015	$(2,229)	13,881	5,351	3,687	20,690
March 31, 2014	$125	7,298	7,963	3,457	18,843

Domestic Life Insurance Operations

A comparative analysis of results of operations for the Company's domestic life insurance segment is detailed below.

	Three Months Ended March 31, 2015 (In thousands)	2014
Premiums and other revenues:		
Premiums and contract charges	$6,487	8,165
Net investment income	7,165	6,283
Other revenues	16	18
Total revenues	13,668	14,466
Benefits and expenses:		
Life and other policy benefits	5,113	2,492
Amortization of deferred policy acquisition costs	3,181	2,400
Universal life insurance contract interest	4,939	5,105
Other operating expenses	3,715	4,279
Total benefits and expenses	16,948	14,276
Segment earnings (loss) before Federal income taxes	(3,280)	190
Provision (benefit) for Federal income taxes	(1,051)	65
Segment earnings (loss)	$(2,229)	125

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Revenues from domestic life insurance operations include life insurance premiums on traditional type products and contract revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Universal life insurance revenues	$7,197	7,649
Traditional life insurance premiums	983	2,223
Reinsurance premiums	(1,693)	(1,707)
Totals	$6,487	8,165

The Company's domestic life insurance in force in terms of policy counts has been declining for several years resulting in lower universal life contract revenue charges. The pace of new policies issued has lagged the number of policies terminated from death or surrender by roughly a two-to-one rate over the past couple of years causing a declining level of insurance in force from which contract charge revenue is received. Consequently, the number of domestic life insurance policies in force has declined from 57,700 at December 31, 2013 to 55,700 at December 31, 2014, and to 55,300 at March 31, 2015. Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. Revenues associated with issuing new business are typically greater than that realized in a renewal period for in force policies. The number of domestic life policies issued in the first three months of 2015 was 21% higher than in the comparable period for 2014 and the volume of insurance issued was also 21% greater than that in 2014.

Premiums collected on universal life products are not reflected as revenues in the Company's Condensed Consolidated Statements of Earnings in accordance with GAAP. Actual domestic universal life premiums collected are detailed below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Universal life insurance:		
First year and single premiums	$26,479	23,530
Renewal premiums	5,061	4,773
Totals	$31,540	28,303

During the past couple of years the Company has achieved some success in growing its domestic life insurance business with the number of new policies issued trending higher. Sales have been substantially weighted toward single premium policies which do not have recurring premium payments. These products are targeting wealth transfer strategies involving the movement of accumulated wealth in alternative investment vehicles, including annuities, into life insurance products. As a result, renewal premium levels have not been exhibiting a corresponding level of increase.

Net investment income for this segment of business has been gradually increasing due to the increased new business activity described above and a higher level of investments needed to support the corresponding growth in policy obligations. The increase in net investment income has been partially muted by lower investment yields from debt security investment purchases during this time frame. Net investment income also includes the gains and losses on index options purchased to back the index crediting mechanism on fixed-index universal products.

A detail of net investment income for domestic life insurance operations is provided below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Net investment income (excluding derivatives)	$7,150	5,539
Derivative gain (loss)	15	744
Net investment income	$7,165	6,283

Life and policy benefits for a smaller block of business are subject to variation from quarter to quarter. Claim activity during the first three months of 2015 was elevated compared to historical trends. While the number of incurred claims during the first quarter of 2015 declined 10% compared to the first quarter of 2014. the average claim amount increased from $13,000 to $27,000. The low face amount per claim reflects the older block of domestic life insurance policies sold which were final expense type products (i.e. purchased to cover funeral costs). The increase in the average face amount reflects a scant addition of more recent policy sales which have much higher face amounts of insurance coverage per policy. The Company's overall mortality experience for this segment is in line with pricing assumptions.

As noted previously in the discussion of Results of Operations, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience with the adjustment reflected in current period amortization expense. To the extent required, the Company may also record unlocking adjustments to DPAC balances. The following table identifies the effects of unlocking and true-up adjustments on domestic life insurance DPAC balances recorded through amortization expense for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Increase (Decrease) in DPAC Balance		
Unlocking	$—	—
True-up	950	1,766
Totals	$950	1,766

As noted in the table above, the true-up adjustments recorded increased the DPAC balance on the condensed consolidated balance sheet which conversely reduced amortization expense in current earnings by a like amount for the periods shown.

International Life Insurance Operations

The Company's international life operations have been a significant factor in the Company's overall earnings performance and represents a niche where the Company believes it has a competitive advantage. A stable population of distribution relationships has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing companies in international markets.

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A comparative analysis of results of operations for the Company's international life insurance segment is detailed below.

	Three Months Ended March 31, 2015	2014
	(In thousands)	
Premiums and other revenues:		
Premiums and contract revenues	$30,333	29,108
Net investment income	8,614	10,718
Other revenues	86	241
Total revenues	39,033	40,067
Benefits and expenses:		
Life and other policy benefits	6,205	5,035
Amortization of deferred policy acquisition costs	(650)	6,745
Universal life insurance and annuity contract interest	7,130	10,205
Other operating expenses	5,922	7,025
Total benefits and expenses	18,607	29,010
Segment earnings (losses) before Federal income taxes	20,426	11,057
Provision (benefit) for Federal income taxes	6,545	3,759
Segment earnings (loss)	$13,881	7,298

As with domestic life operations, revenues from the international life insurance segment include both premiums on traditional type products and contract revenues from universal life insurance. A comparative detail of premiums and contract revenues is provided below.

	Three Months Ended March 31, 2015	2014
	(In thousands)	
Universal life insurance revenues	$29,192	28,650
Traditional life insurance premiums	3,363	3,045
Reinsurance premiums	(2,222)	(2,587)
Totals	$30,333	29,108

In general, universal life revenues and operating earnings are anticipated to emerge with growth in the amount of international life insurance in force fueled by a steady growth in new sales. The volume of insurance in force grew from $19.6 billion at December 31, 2013 to $20.0 billion at December 31, 2014 and leveled off to slightly above $19.9 billion at March 31, 2015. Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. The number of international life policies issued in the first three months of 2015 was 7% lower than in the first three months of 2014 while the volume of insurance issued was 21% less than that issued in 2014 during the same period due to a decrease in the average face amount per policy.

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International universal life revenues also include surrender charges assessed upon surrender of contracts by policyholders. In the midst of the financial crisis several years ago, the Company's international policyholders, in particular, exhibited concern regarding the developments in U.S. financial markets. This evidenced itself in the Company's termination activity in its international life policies in force. The Company incurred higher termination experience than is typical which resulted in recognition of increased surrender charge fee income. This level of termination activity subsequently subsided. However, ongoing global uncertainties may cause a re-emerging concern with international policyholders. The following table illustrates the Company's recent international life termination experience.

	Amount in $'s (millions)	Annualized Termination Rate	
Volume In Force Terminations			
Year ended December 31, 2010	$1,721.8	9.0	%
Year ended December 31, 2011	1,465.1	7.3	%
Year ended December 31, 2012	1,828.4	8.7	%
Year ended December 31, 2013	1,838.5	8.6	%
Year ended December 31, 2014	1,825.5	8.4	%
Three months ended March 31, 2015	480.0	8.9	%

As noted previously, premiums collected on universal life products are not reflected as revenues in the Company's Condensed Consolidated Statements of Earnings in accordance with GAAP. Actual international universal life premiums collected are detailed below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Universal life insurance:		
First year and single premiums	$5,674	5,723
Renewal premiums	25,035	26,158
Totals	$30,709	31,881

The Company's most popular international products have been its fixed-index universal life products in which the policyholder can elect to have the interest rate credited to their policy account values linked in part to the performance of the S&P 500 Index®. Included in the totals in the above table are collected premiums for fixed-index universal life products of approximately $20.0 million and $20.4 million for the first three months of 2015 and 2014, respectively.

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As previously noted, net investment income and contract interest include period-to-period changes in fair values pertaining to call options purchased to hedge the interest crediting feature on the fixed-index universal life products. With the growth in the fixed-index universal life block of business, the period-to-period changes in fair values of the underlying options have had an increasingly greater impact on net investment income and universal life contract interest. A detail of net investment income for international life insurance operations is provided below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Net investment income (excluding derivatives)	$9,753	9,702
Derivative gain (loss)	(1,139)	1,016
Net investment income	$8,614	10,718

For liability purposes, the embedded option in the Company's policyholder obligations for this feature is bifurcated and reserved for separately. Accordingly, a comparable impact for the derivative component in the equity-index universal life product is reflected in the contract interest expense for each respective period. Refer to Note 11, Derivative Investments, of the accompanying condensed consolidated financial statements for further discussion.

Life and policy benefits primarily consist of death claims on policies. The Company's clientele for international products are wealthy individuals with access to U.S. dollars and quality medical care. Consequently, the amounts of coverage purchased tend to be larger amounts. In the year ended December 31, 2014, the average face amount of insurance purchased was $383,000, and the first three months of 2015, the average was approximately $354,000. While life and policy benefit expense for the international life segment reflects the larger policies purchased, mortality due to natural causes is comparable to that in the United States. The Company's maximum risk exposure per insured life is capped at $500,000 through reinsurance. Similar to the domestic life line of business, the average net claim amount in the first quarter of 2015 increased from that in the first quarter of 2014 rising to $202,000 from $124,000.

The Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on international life insurance DPAC balances recorded through amortization expense for the for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Increase (Decrease) in DPAC Balance		
Unlocking	$7,120	—
True-up	2,600	2,150
Totals	$9,720	2,150

In the quarter ended March 31, 2015, the Company unlocked the DPAC balance associated with its International Life segment for favorable mortality experience on one of its universal life products. The effect of the prospective unlocking was to increase DPAC balances by $7.1 million (and decrease amortization expense). No unlocking adjustments were made in the first quarter of 2014.

True-up adjustments in the first three months of 2015 and 2014 increased the DPAC balance on the condensed consolidated balance sheet and decreased amortization expense in current earnings by a like amount.

As indicated in the discussion concerning net investment income, contract interest expense includes fluctuations that are the result of the performance of underlying equity indices associated with fixed-index universal life products. The derivative gain (loss) realized on purchased call options is included in the amounts the Company credits to policyholders.

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Annuity Operations

The Company's annuity operations are almost exclusively with residents of the United States. Although some of the Company's investment contracts are available to international residents, current sales are small relative to total annuity sales. A comparative analysis of results of operations for the Company's annuity segment is detailed below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Premiums and other revenues:		
Premiums and contract revenues	$4,840	5,003
Net investment income	79,236	86,617
Other revenues	15	37
Total revenues	84,091	91,657
Benefits and expenses:		
Life and other policy benefits	7,948	5,436
Amortization of deferred policy acquisition costs	25,121	19,434
Annuity contract interest	36,970	47,626
Other operating expenses	6,178	7,096
Total benefits and expenses	76,217	79,592
Segment earnings (loss) before Federal income taxes	7,874	12,065
Provision (benefit) for Federal income taxes	2,523	4,102
Segment earnings (loss)	$5,351	7,963

Premiums and contract charges primarily consist of surrender charge income recognized on terminated policies. The amount of the surrender charge income recognized is determined by the volume of surrendered contracts as well as the duration of each contract at the time of surrender given the pattern of declining surrender charge rates over time that is common to most annuity contracts. The Company's lapse rate for annuity contracts in the first three months of 2015 was 6.7% compared to 7.1% during the same period in 2014.

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Deposits collected on annuity contracts are not reflected as revenues in the Company's Condensed Consolidated Statements of Earnings, in accordance with GAAP. Actual annuity deposits collected for the for the three months ended March 31, 2015 and 2014 are detailed below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Fixed-index annuities	$160,307	155,516
Other deferred annuities	10,129	13,522
Immediate annuities	2,790	2,090
Totals	$173,226	171,128

Fixed-index products are more attractive for consumers when interest rate levels remain low and equity markets produce positive returns. Since the Company does not offer variable products or mutual funds, fixed-index products provide an important alternative to the Company's existing fixed interest rate annuity products. Fixed-index annuity deposits as a percentage of total annuity deposits were 93% and 91% for the three months ended March 31, 2015 and 2014, respectively. The increasing percentage of fixed-index products of total annuity sales reflects the low interest rate environment and the current bull market in equities.

As a selling inducement, some of the deferred products, as well as the fixed-index annuity products, include a first year interest bonus ranging from 1% to 7% depending upon the product, in addition to a base first year interest rate. Other products include a premium bonus ranging from 2% to 10% which is credited to the account balance when premiums are applied. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred to be amortized over future periods amounted to approximately $3.8 million and $3.7 million during the first three months of 2015 and 2014, respectively. Amortization of deferred sales inducements is included as a component of annuity contract interest as described later in this discussion of Annuity Operations.

A detail of net investment income for annuity operations is provided below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Net investment income (excluding derivatives)	$86,399	87,829
Derivative gain (loss)	(7,163)	(1,212)
Net investment income	$79,236	86,617

As previously described, derivatives are call options purchased to hedge the equity return component of the Company's fixed-index annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. Given the bifurcation of the embedded option in the determination of the contract reserve liability, a comparable impact for the derivative component in fixed-index annuity products is reflected in contract interest expense.

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Consistent with the domestic and international life segments, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on annuity DPAC balances recorded through amortization expense for the for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Increase (Decrease) in DPAC Balance		
Unlocking	$(5,310)	—
True-up	(2,130)	(27)
Totals	$(7,440)	(27)

The Company unlocked the DPAC balance associated with its annuity segment in the first quarter of 2015 for future expense assumptions pertaining to product development override costs (trailer commissions) which it is obligated to pay certain contracted National Marketing Organizations. The effect of the prospective unlocking was to decrease DPAC balances by $5.3 million (and increase amortization expense). No unlocking adjustments were recorded in the first quarter of 2014.

As the true-up adjustments decreased the DPAC balances on the condensed consolidated balance sheet for the three months ended March 31, 2015 and 2014, a corresponding increase in DPAC amortization expense was recorded in the Company's Condensed Consolidated Statements of Earnings in each respective period. The larger true-up decrement to the DPAC balance for the three months ended March 31, 2015 reflects the impact of spread compression upon the profitability of fixed deferred annuities and the change in fixed-index annuity spread returns based upon actual returns of maturing call option contracts.

Annuity contract interest includes the equity component return associated with the call options purchased to hedge the Company's fixed-index annuities. The detail of fixed-index annuity contract interest compared to contract interest for all other annuities is as follows:

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Fixed-index annuities	$10,037	21,586
All other annuities	22,263	22,617
Gross contract interest	32,300	44,203
Bonus interest deferred and capitalized	(3,836)	(3,723)
Bonus interest amortization	8,506	7,146
Total contract interest	$36,970	47,626

The fluctuation in reported contract interest amounts for fixed-index annuities is driven by sales levels, the level of the business in force and the positive or negative performance of equity markets on option values. The derivative gain (loss) information included in the net investment income discussion above is largely reflected in the amounts shown for contract interest for fixed-index annuities.

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True-up adjustments for the deferred sales inducement balance are made each period similar to that done with respect to DPAC balances. For the three months ended March 31, 2015 and 2014, deferred sales inducement balances on the condensed consolidated balance sheet were increased (reduced) by $(0.5) million and $0.2 million, respectively, for true-up adjustments. These adjustments are included in the above table as an (addition) decrease to bonus interest amortization. The Company also unlocked its deferred sales inducement balance in the first quarter of 2015 associated with the annuity segment for future expense assumptions pertaining to product development override costs as previously discussed. The effect of the prospective unlocking was to decrease the deferred sales inducement balance by $1.8 million which increased contract interest expense by the same amount. No unlocking adjustments were made in the first quarter of 2014.

Other Operations

National Western Life Insurance Company's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, National Western also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Nursing home operations generated $0.5 million and $0.4 million of operating earnings in the first three months of 2015 and 2014, respectively. The remaining earnings of $5.6 million and $3.1 million for the three months ended March 31, 2015 and 2014, respectively, in Other Operations represent investment income from real estate, municipal bonds, and common and preferred equities held in subsidiary company portfolios principally for tax advantage purposes.

INVESTMENTS

General

The Company's investment philosophy emphasizes the careful handling of policyowners' and stockholders' funds to achieve security of principal, to obtain the maximum possible yield while maintaining security of principal, and to maintain liquidity in a measure consistent with current and long-term requirements of the Company.

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below. The Company emphasizes investment grade debt securities with smaller holdings in mortgage loans.

	March 31, 2015		December 31, 2014	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	$9,879,308	96.4	$9,552,920	96.2
Mortgage loans	143,918	1.4	149,503	1.5
Policy loans	63,877	0.6	63,645	0.6
Derivatives, index options	95,987	0.9	114,287	1.2
Real estate	16,570	0.2	16,741	0.2
Equity securities	17,615	0.2	17,303	0.2
Other	27,449	0.3	12,033	0.1
Totals	$10,244,724	100.0	$9,926,432	100.0

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Debt and Equity Securities

The Company maintains a diversified portfolio which consists mostly of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. Government agency pass-through securities and collateralized mortgage obligations ("CMO"). The Company's investment guidelines prescribe limitations by type of security as a percent of the total investment portfolio and all holdings were within these threshold limits. As of March 31, 2015 and December 31, 2014, the Company's debt securities portfolio consisted of the following classes of securities:

	March 31, 2015		December 31, 2014	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	$6,563,275	66.5	$6,208,241	65.1
Mortgage-backed securities	1,664,489	16.8	1,693,372	17.7
Public utilities	1,150,566	11.6	1,158,063	12.1
State and political subdivisions	436,951	4.4	432,739	4.5
U.S. agencies	15,047	0.2	10,061	0.1
Asset-backed securities	36,434	0.4	38,199	0.4
Foreign governments	10,625	0.1	10,325	0.1
U.S. Treasury	1,921	—	1,920	—
Totals	$9,879,308	100.0	$9,552,920	100.0

Substantially all of the Company's investable cash flows are directed toward the purchase of long-term debt securities. The Company's investment policy calls for investing in debt securities that are investment grade, meet quality and yield objectives, and provide adequate liquidity for obligations to policyholders. Debt securities with intermediate maturities are targeted by the Company as they more closely match the intermediate nature of the Company's policy liabilities and provide an appropriate strategy for managing cash flows. Long-term debt securities purchased to fund insurance company operations are summarized below.

	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
	($ In thousands)			
Cost of acquisitions	$443,632		$1,166,112	
Average S&P® quality	A-		A-	
Effective annual yield	3.24	%	3.68	%
Spread to treasuries	1.25	%	1.12	%
Effective duration	8.4 years		8.5 years	

The mortgage-backed securities portfolio consists predominantly of agency mortgage-backed securities. Because mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations ("CMO"), which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater than average prepayment risk. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

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In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investment in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's debt securities portfolio with 98.5% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	March 31, 2015		December 31, 2014	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA	$102,864	1.0	$105,973	1.1
AA	2,480,439	25.1	2,519,235	26.4
A	3,337,878	33.8	3,216,935	33.7
BBB	3,814,560	38.6	3,563,641	37.3
BB and other below investment grade	143,567	1.5	147,136	1.5
Totals	$9,879,308	100.0	$9,552,920	100.0

The Company's investment guidelines do not allow for the purchase of below investment grade securities. The investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. These holdings are further summarized below.

	Below Investment Grade Debt Securities				
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets	
	(In thousands, except percentages)				
March 31, 2015	$141,197	143,567	150,365	1.4	%
December 31, 2014	$146,143	147,136	152,586	1.5	%

The Company's percentage of below investment grade securities compared to total invested assets decreased slightly from December 31, 2014 due to a bond holding which was upgraded to investment grade and to principal paydowns on below investment grade holdings. The Company's holdings of below investment grade securities are relatively small and as a percentage of total invested assets low compared to industry averages.

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Holdings in below investment grade securities by category as of March 31, 2015 are summarized below, including March 31, 2015 and December 31, 2014 fair values for comparison. The Company continually monitors developments in these industries for issues that may affect security valuation.

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Fair Value	Fair Value
Industry Category	March 31, 2015	March 31, 2015	March 31, 2015	December 31, 2014
	(In thousands)			
Retail	$14,970	15,825	15,825	15,600
Telecommunications	5,049	5,600	5,600	5,650
Asset-backed securities	5,739	5,739	7,636	7,743
Mortgage-backed	2,167	2,209	2,209	7,244
Transportation	—	41	41	61
Manufacturing	50,915	52,614	55,853	54,823
Banking/finance	18,010	18,073	17,585	16,583
Other	44,347	43,466	45,616	44,882
Totals	$141,197	143,567	150,365	152,586

The Company closely monitors its below investment grade holdings by reviewing investment performance indicators, including information such as issuer operating performance, debt ratings, analyst reports and other economic factors that may affect these specific investments. While additional losses are not currently anticipated, based on the existing status and condition of these securities, continued credit deterioration of some securities or the markets in general is possible, which may result in further write-downs.

With the precipitous drop in oil prices over the past year, the oil and gas industry has been experiencing a severe downturn which
may consequently affect the credit quality of individual companies included in the Company's debt security portfolio. At March 31, 2015 and December 31, 2014, the Company's aggregate holdings in this sector approximated $866 million and $802 million, respectively. These holdings represented debt securities issued by approximately forty companies in the oil and gas industry, all of which are investment grade as of both balance sheet dates.

Certain European countries have experienced varying degrees of financial stress. Risks from the lingering debt crisis in Europe could potentially disrupt financial markets and have a detrimental impact on global conditions as well as on sovereign and non-sovereign obligations.The Company has no exposure to the sovereign debt of Portugal, Ireland, Italy, Greece or Spain. These countries in particular have been or are experiencing significant economic, fiscal and political strains that could increase the likelihood of default for these countries. Additionally, the Company has no exposure to the debt of financial institutions domiciled in these countries.

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However, the Company does have exposure to the debt of non-financial companies in each of these countries except for Greece. The following tables show bond holdings at March 31, 2015 of non-financial companies that are domiciled in Portugal, Ireland, Italy, or Spain held in the available for sale and held to maturity debt security portfolios.

Securities Available for Sale		Amortized Cost	Fair Value	
Company	S&P Rating	March 31, 2015	March 31, 2015	Country Domiciled
	(In thousands)			
Covidien	A	$24,154	25,858	Ireland
CRH	BBB+	3,999	4,686	Ireland
Telefonica	BBB	11,780	12,875	Spain
Totals		$39,933	43,419	

Securities Held to Maturity		Amortized Cost	Fair Value	
Company	S&P Rating	March 31, 2015	March 31, 2015	Country Domiciled
	(In thousands)			
Covidien	A	$4,991	5,077	Ireland
EDP	BB+	17,255	18,765	Portugal
Enel	BBB	19,942	22,287	Italy
Finmeccanica	BB+	15,017	16,688	Italy
Iberdrola Finance	BBB	2,929	3,347	Spain
Kerry Group	BBB+	21,956	22,032	Ireland
Telefonica	BBB	8,097	9,252	Spain
Perrigo	BBB	25,814	26,996	Ireland
Totals		$116,001	124,444	

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other-than-temporary. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). Refer to Note 10, Fair Values of Financial Instruments, of the accompanying condensed consolidated financial statements for further discussion.

During the three months ended March 31, 2015 the Company recorded no other-than-temporary impairment credit related write-downs on debt securities or equity securities. See Note 9, Investments, of the accompanying condensed consolidated financial statements for further discussion. Since the Company's adoption of the GAAP guidance on the recognition and accounting for other-than-temporary impairments due to credit loss versus non-credit loss, the Company has recognized a total of $5.9 million of other-than-temporary impairments of which $2.3 million was deemed credit related and recognized as realized investment losses in earnings, and $3.6 million was deemed a non-credit related impairment and recognized in other comprehensive income.

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The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities; (b) securities available for sale; or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination on categorization based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at March 31, 2015, approximately 27.6% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. The holdings in available for sale provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

	March 31, 2015		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
	(In thousands)		
Securities held to maturity:			
Debt securities	$7,470,133	7,042,233	427,900
Securities available for sale:			
Debt securities	2,837,075	2,674,761	162,314
Equity securities	17,615	12,807	4,808
Totals	$10,324,823	9,729,801	595,022

Asset-Backed Securities

The Company holds approximately $36.4 million in asset-backed securities as of March 31, 2015. This portfolio includes $6.0 million of manufactured housing bonds and $30.5 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collaterized bond obligations (“CBO”s), collateralized debt obligations (“CDO”s), or collateralized loan obligations (“CLO”s). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

During the second quarter of 2014 the Company sold its one remaining Alt-A security. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The Company's exposure to the Alt-A and subprime sectors has been limited to investments in the senior tranches of structured securities collateralized by Alt-A or subprime residential mortgage loans. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses beginning in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. All of the loans classified as subprime in the Company's portfolio as of March 31, 2015 were underwritten prior to 2005 as noted in the table below.

	March 31, 2015		December 31, 2014	
Investment Origination Year	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Subprime:				
1998	$3,181	3,208	3,322	3,275
2003	3,664	5,399	3,709	5,469
2004	23,635	26,487	23,773	26,737
Total	$30,480	35,094	30,804	35,481

As of March 31, 2015, the Company held ten subprime issues of which 2 were rated AA, 4 were rated BBB, 1 was rated B, 2 were rated CC and 1 was not rated.

Mortgage Loans and Real Estate

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and sales or service facilities, selected apartment buildings, motels, and health care facilities. The location of these properties is typically in major metropolitan areas that offer a potential for property value appreciation. Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lease payments and also by the borrower. This approach has proven to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

The Company requires a minimum specified yield on mortgage loan investments. During the past several years, the low interest rate environment has resulted in fewer loan opportunities being available that meet the Company's required rate of return. Mortgage loans originated by the Company totaled $37.1 million for the year ended December 31, 2014 and $1.3 million for the three months ended March 31, 2015. Principal repayments on mortgage loans for the three months ended March 31, 2015 were $6.9 million.

Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status. If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any revenue into the Condensed Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company has no loans past due 90 days which are accruing interest.

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The Company held net investments in mortgage loans totaling $143.9 million and $149.5 million at March 31, 2015 and December 31, 2014, respectively. The diversification of the portfolio by geographic region and by property type was as follows:

	March 31, 2015 Amount (In thousands)	%	December 31, 2014 Amount (In thousands)	%
Mortgage Loans by Geographic Region:				
West South Central	$92,498	64.0	$97,918	65.2
East South Central	14,032	9.7	14,137	9.4
New England	12,073	8.3	12,155	8.1
East North Central	10,796	7.5	10,714	7.1
Pacific	10,261	7.1	10,282	6.9
Middle Atlantic	1,869	1.3	1,897	1.3
Mountain	1,714	1.2	3,050	2.0
South Atlantic	1,325	0.9	—	—
Gross balance	144,568	100.0	150,153	100.0
Allowance for possible losses	(650)	(0.5)	(650)	(0.4)
Totals	$143,918	99.5	$149,503	99.6

	March 31, 2015 Amount (In thousands)	%	December 31, 2014 Amount (In thousands)	%
Mortgage Loans by Property Type:				
Retail	$124,940	86.4	$130,544	86.9
Apartments	7,305	5.0	7,333	4.9
Land/Lots	3,423	2.4	3,333	2.2
Hotel/Motel	1,579	1.1	1,600	1.1
Office	869	0.6	893	0.6
All other	6,452	4.5	6,450	4.3
Gross balance	144,568	100.0	150,153	100.0
Allowance for possible losses	(650)	(0.5)	(650)	(0.4)
Totals	$143,918	99.5	$149,503	99.6

The Company's direct investments in real estate are not a significant portion of its total investment portfolio as most of these investments were acquired through mortgage loan foreclosures. The Company also participates in several real estate joint ventures, limited partnerships, and other loans that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns. The Company's real estate investments totaled approximately $16.6 million and $16.7 million at March 31, 2015 and December 31, 2014, respectively. The Company recognized operating income on these properties of approximately $0.4 million for the first three months of 2015. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition.

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Market Risk

Market risk is the risk of change in market values of financial instruments due to changes in interest rates, currency exchange rates, commodity prices, or equity prices. The most significant market risk exposure for National Western is interest rate risk. Substantial and sustained increases and decreases in market interest rates can affect the profitability of insurance products and fair value of investments. The yield realized on new investments generally increases or decreases in direct relationship with interest rate changes. The fair values of fixed income debt securities correlate to external market interest rate conditions as market values typically increase when market interest rates decline and decrease when market interest rates rise. However, market values may fluctuate for other reasons, such as changing economic conditions, market dislocations or increasing event-risk concerns.

Interest Rate Risk

A gradual increase in interest rates from current levels would generally be a positive development for the Company. Rate increases would be expected to provide incremental net investment income, produce increased sales of fixed rate products, and limit the potential erosion of the Company's interest rate spread on products due to minimum guaranteed crediting rates in products. Alternatively, a rise in interest rates would reduce the fair value of the Company's investment portfolio and if long-term rates rise dramatically within a relatively short time period could expose the Company to disintermediation risk. Disintermediation risk is the risk that policyholders will surrender their policies in a rising interest rate environment forcing the Company to liquidate assets when they are in an unrealized loss position.

A decline in interest rates could cause certain mortgage-backed securities in the Company's portfolio to be more likely to pay down or prepay. In this situation, the Company typically will be unable to reinvest the proceeds at comparable yields. Lower interest rates will likely also cause lower net investment income, subject the Company to reinvestment rate risks, and possibly reduce profitability through reduced interest rate margins associated with products with minimum guaranteed crediting rates. Alternatively, the fair value of the Company's investment portfolio will increase when interest rates decline.

The correlation between fair values and interest rates for debt securities is reflected in the tables below.

	March 31, 2015	December 31, 2014
	(In thousands except percentages)	
Debt securities - fair value	$10,307,208	9,886,820
Debt securities - amortized cost	$9,716,994	9,418,818
Fair value as a percentage of amortized cost	106.07 %	104.97 %
Net unrealized gain balance	$590,214	468,002
Ten-year U.S. Treasury bond – (decrease) increase in yield for the period	(0.25)%	(0.86)%

	Net Unrealized Gain Balance		
	At March 31, 2015	At December 31, 2014	Change in Unrealized Balance
Debt securities held to maturity	$427,900	333,900	94,000
Debt securities available for sale	162,314	134,102	28,212
Totals	$590,214	468,002	122,212

Changes in interest rates typically have a sizable effect on the fair values of the Company's debt securities. The market interest rate of the ten-year U.S. Treasury bond decreased approximately 25 basis points from 2.17% at year-end 2014 to 1.92% by the end of the first three months of 2015 and the Company's unrealized gain position increased $122.2 million on a portfolio with an amortized cost basis of approximately $9.7 billion. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have a relatively small effect on the Company's Condensed Consolidated Balance Sheet.

The Company manages interest rate risk principally through ongoing cash flow testing as required for insurance regulatory purposes. Computer models are used to perform cash flow testing under various commonly used stress test interest rate scenarios to determine if existing assets would be sufficient to meet projected liability outflows. Sensitivity analysis allows the Company to measure the potential gain or loss in fair value of its interest-sensitive instruments and to protect its economic value and achieve a predictable spread between what is earned on invested assets and what is paid on liabilities. The Company seeks to minimize the impact of interest risk through surrender charges that are imposed to discourage policy surrenders. Interest rate changes can be anticipated in the computer models and the corresponding risk addressed by management actions affecting asset and liability instruments. However, potential changes in the values of financial instruments indicated by hypothetical interest rate changes will likely be different from actual changes experienced, and the differences could be significant.

The Company has the ability to adjust interest rates, participation rates, and asset fees and caps, as applicable, in response to changes in investment portfolio yields for a substantial portion of its business in force. The ability to adjust these rates is subject to competitive forces in the market for the Company’s products. Surrender rates could increase and new sales could be negatively affected if crediting rates are not competitive with the rates on competing products offered by other insurance companies and financial service entities. The Company designs its products with features encouraging persistency. Interest sensitive life and annuity products have surrender and withdrawal penalty provisions. Depending on the products, surrender charge rates on annuity contracts sold or in force range up to 25% and surrender charge periods up to 15 years. Typically, surrender charge rates gradually decrease each year the contract is in force.

The Company performed detailed sensitivity analysis as of December 31, 2014, for its interest rate-sensitive assets and liabilities. The changes in market values of the Company's debt securities in the first three months of 2015 were reasonable given the expected range of results of this analysis.

Credit Risk

The Company is exposed to credit risk through counterparties and within its investment portfolio. Credit risk relates to the uncertainty associated with an obligor's continued ability to make timely payments of principal and interest in accordance with the contractual terms of an instrument or contract. As previously discussed, the Company manages credit risk through established investment credit policies and guidelines which address the quality of creditors and counterparties, concentration limits, diversification practices and acceptable risk levels. These policies and guidelines are regularly reviewed and approved by senior management and the Company's Board of Directors.

In connection with the Company’s use of call options to hedge the equity return component of its fixed-indexed annuity and life products, the Company is exposed to the risk that a counterparty fails to perform under terms of the option contract. The Company purchases one-year option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to the purchase of the contracts. For consideration in contracting with a counterparty the rating required by the Company is a Standard & Poor’s credit rating of “A” or higher and a Moody’s rating of “A2” or higher. Accordingly, all options are purchased from nationally recognized financial institutions with a demonstrated performance for honoring their financial obligations and possessing substantial financial capacity. In addition, each counterparty is required to execute a credit support agreement obligating the counterparty to provide collateral to the Company when the fair value of the Company’s exposure to the counterparty exceeds specified amounts. The amount of collateral to be provided is based upon a sliding scale tied to the credit rating of the counterparty(the higher the credit rating of the counterparty the higher the threshold of exposure before collateral is to be provided). At the highest credit rating level the maximum counterparty net exposure not subject to collateral support is $20 million. This net exposure level declines as the counterparty credit rating declines and ultimately is $0 at a rating of “BBB+”. Counterparty credit ratings and credit exposure are monitored continuously by the Company’s

Investment department with adjustments to collateral levels managed as incurred under the credit support agreements.

The Company is also exposed to credit spread risk related to market prices of investment securities and cash flows associated with changes in credit spreads. Credit spread tightening will reduce net investment income associated with new purchases of fixed debt securities and increase the fair value of the investment portfolio. Credit spread widening will reduce the fair value of the investment portfolio and will increase net investment income on new purchases.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of having to liquidate invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to $40 million on its bank line of credit for short-term cash needs. There were no borrowings outstanding under the line of credit at March 31, 2015.

A primary liquidity concern for life insurers is the risk of an extraordinary level of early policyholder withdrawals as may occur in a rapidly increasing interest rate environment or other period of exceptional financial duress. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustments, that help limit and discourage early withdrawals.

The actual amounts paid by product line in connection with surrenders and withdrawals for the periods ended March 31, for each respective year, are noted in the table below.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Product Line:		
Traditional Life	$1,322	1,096
Universal Life	26,205	15,321
Annuities	107,748	125,360
Total	$135,275	141,777

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset/liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and tests under various market interest rate scenarios are also performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

In the past, cash flows from the Company's insurance operations have been sufficient to meet current needs. Cash flows from operating activities were $90.8 million and $73.0 million for the three months ended March 31, 2015 and 2014, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. Investment related cash flows totaled $150.0 million and $188.5 million for the three months ended March 31, 2015 and 2014, respectively. These cash flow items could be reduced if interest rates rise. Net cash flows from the Company's universal life and investment annuity deposit product operations totaled $(25.3) million and $(25.4) million during the three months ended March 31, 2015 and 2014, respectively.

Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of March 31, 2015, the Company had no commitments beyond its normal operating and investment activities.

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OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is not Company practice to enter into off-balance sheet arrangements or to issue guarantees to third parties, other than in the normal course of issuing insurance contracts. Commitments related to insurance products sold are reflected as liabilities for future policy benefits. Insurance contracts guarantee certain performances by the Company.

Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note 1 in the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of reserving methods.

The table below summarizes future estimated cash payments under existing contractual obligations.

	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(In thousands)				
Loan commitments	$—	—	—	—	—
Operating lease obligations	1,058	178	476	380	24
Life claims payable (1)	69,963	69,963	—	—	—
Other long-term reserve liabilities reflected on the balance sheet (2)	11,025,200	949,497	1,859,730	1,887,955	6,328,018
Total	$11,096,221	1,019,638	1,860,206	1,888,335	6,328,042

(1) Life claims payable include benefit and claim liabilities for which the Company believes the amount and timing of the payment is essentially fixed and determinable. Such amounts generally relate to incurred and reported death and critical illness claims including an estimate of claims incurred but not reported.

(2) Other long-term liabilities include estimated life and annuity obligations related to death claims, policy surrenders, policy withdrawals, maturities and annuity payments based on mortality, lapse, annuitization, and withdrawal assumptions consistent with the Company's historical experience. The estimated life and annuity obligations shown are undiscounted projected cash outflows that assume interest crediting and market growth consistent with assumptions used in amortizing deferred acquisition costs. They do not include any offsets for future premiums or deposits. Other long-term liabilities also include determinable payout patterns related to immediate annuities. Due to the significance of the assumptions used, the actual cash outflows will differ both in amount and timing, possibly materially, from these estimates.

CHANGES IN ACCOUNTING PRINCIPLES AND CRITICAL ACCOUNTING POLICIES

Changes in Accounting Principles

There were no changes in accounting principles during the periods reported in this Form 10-Q.

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REGULATORY AND OTHER ISSUES

Statutory Accounting Practices

Regulations that affect the Company and the insurance industry are often the result of efforts by the National Association of Insurance Commissioners ("NAIC"). The NAIC routinely publishes new regulations as model acts or laws which states subsequently adopt as part of their insurance regulations. Currently, the Company is not aware of any NAIC regulatory matter material to its operations or reporting of financial results.

Risk-Based Capital Requirements

The NAIC established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of life insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. The threshold of adequate capital is based on a formula that takes into account the amount of risk each company faces on its products and investments. The RBC formula takes into consideration four major areas of risk which are: (i) asset risk which primarily focuses on the quality of investments; (ii) insurance risk which encompasses mortality and morbidity risk; (iii) interest rate risk which involves asset/liability matching issues; and (iv) other business risks. Statutory laws prohibit public dissemination of certain RBC information. However, the Company's current statutory capital and surplus is significantly in excess of the threshold RBC requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is included in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Investments in Debt and Equity Securities section.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

There have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(e) under the Exchange Act) during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Internal controls over financial reporting change as the Company modifies or enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 8(A) "Legal Proceedings" of the accompanying condensed consolidated financial statements included in this Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no substantial changes relative to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Effective August 22, 2008, the Company adopted and implemented a limited stock buy-back program associated with the Company's 2008 Incentive Plan which provides Option Holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. This program succeeded a similar buy-back program implemented March 10, 2006 associated with the Company's 1995 Stock Option and Incentive Plan. 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 following table sets forth the Company's repurchase of its Class A common shares from Option Holders for the quarter ended March 31, 2015. There were no shares repurchased during the period.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May yet Be Purchased Under the Plans or Programs
January 1, 2015 through January 31, 2015	—		N/A	N/A
February 1, 2015 through February 28, 2015	—		N/A	N/A
March 1, 2015 through March 31, 2015	—		N/A	N/A
Total	—		N/A	N/A

Purchased shares are reported in the Company's condensed consolidated financial statements as authorized and unissued.

ITEM 4. Removed and Reserved.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 31(a) - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31(b) - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32(a) - Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Registrant)

Date: May 8, 2015	/S/ Ross R. Moody Ross R. Moody President, Chief Operating Officer, and Director (Authorized Officer)
Date: May 8, 2015	/S/ Brian M. Pribyl Brian M. Pribyl Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
Date: May 8, 2015	/S/ Bruce E. Wood Bruce E. Wood Vice President, Controller and Assistant Treasurer (Principal Accounting Officer)

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