UTG INC
Form 10-Q
August 14, 2008

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 AND 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

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

For the transition period from _____________ to ____________

Commission File No. 0-16867

UTG, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-2907892
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5250 SOUTH SIXTH STREET
P.O. BOX 5147
SPRINGFIELD, IL 62705
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (217) 241-6300

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company. Yes [ ] No [X]

The number of shares outstanding of the registrant's common stock as of August 1, 2008, was 3,842,062.

UTG, INC. AND SUBSIDIARIES
(The "Company")

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

UTG, Inc.
AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

ASSETS		June 30, 2008		December 31, 2007*
Investments:				
Fixed maturities at amortized cost				
(market $0 and $6,330,036)	$	0	$	6,006,846
Investments held for sale:				
Fixed maturities, at market (cost $200,599,948 and $196,942,774)		198,484,986		197,974,206
Equity securities, at market (cost $28,345,875 and $26,882,875)		32,090,921		32,678,592
Mortgage loans on real estate at amortized cost		47,628,719		45,602,147
Investment real estate, at cost, net of accumulated depreciation		40,218,215		39,154,175
Policy loans		15,283,410		15,643,238
Short-term investments		933,967		933,967
		334,640,218		337,993,171
Cash and cash equivalents		12,974,520		17,746,468
Securities of affiliate		4,000,000		4,000,000
Accrued investment income		2,672,713		2,485,594
Reinsurance receivables:				

Future policy benefits		72,128,331		73,450,212
Policy claims and other benefits		4,577,512		4,657,663
Cost of insurance acquired		26,331,488		28,337,021
Deferred policy acquisition costs		926,054		1,009,528
F.I.T. Recoverable		134,944		0
Property and equipment, net of accumulated depreciation		1,694,921		1,752,199
Other assets		415,317		2,222,898
Total assets	$	460,496,018	$	473,654,754
LIABILITIES AND SHAREHOLDERS' EQUITY				
Policy liabilities and accruals:				
Future policy benefits	$	343,365,453	$	346,076,921
Policy claims and benefits payable		3,784,797		3,198,166
Other policyholder funds		963,376		1,000,216
Dividend and endowment accumulations		14,078,818		14,039,241
Income taxes payable, current		0		450,626
Deferred income taxes		14,442,997		16,502,035
Notes payable		17,690,825		19,914,346
Other liabilities		8,595,628		9,486,971
Total liabilities		402,921,894		410,668,522
Minority interests in consolidated subsidiaries		12,555,396		14,231,707
Shareholders' equity:				
Common stock - no par value, stated value $.001 per share				
Authorized 7,000,000 shares - 3,842,062 and 3,849,533 shares issued				
after deducting treasury shares of 392,284 and 384,813		3,842		3,849
Additional paid-in capital		42,007,469		42,067,229
Retained earnings		1,819,262		2,374,990
Accumulated other comprehensive income		1,188,155		4,308,457
Total shareholders' equity		45,018,728		48,754,525
Total liabilities and shareholders' equity	$	460,496,018	$	473,654,754

* Balance sheet audited at December 31, 2007.
See accompanying notes.

UTG, Inc.
AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues:				

Premiums and policy fees	$	6,176,981	$	5,911,103	11,572,476	$	12,069,522
Reinsurance premiums and policy fees		(1,023,832)		(1,397,820)	(2,492,148)		(2,579,736)
Net investment income		4,070,042		4,471,452	8,675,676		8,758,377
Realized investment gains, net		58,700		1,946,270	78,883		1,630,512
Other income		504,397		536,076	1,008,796		1,062,749
		9,786,288		11,467,081	18,843,683		20,941,424
Benefits and other expenses:							
Benefits, claims and settlement expenses:							
Life		8,169,891		6,869,672	14,766,078		14,291,763
Reinsurance benefits and claims		(1,049,449)		(926,460)	(1,779,412)		(1,641,737)
Annuity		479,477		294,019	563,671		579,697
Dividends to policyholders		294,418		317,178	594,647		656,878
Commissions and amortization of deferred policy acquisition costs		(351,680)		(582,792)	(811,051)		(793,149)
Amortization of cost of insurance acquired		1,001,614		1,133,630	2,005,533		2,286,681
Operating expenses		1,840,864		2,052,800	3,875,091		4,168,806
Interest expense		215,300		452,501	503,853		731,651
		10,600,435		9,610,548	19,718,410		20,280,590
Income (loss) before income taxes, minority interest and equity in earnings of investees		(814,147)		1,856,533	(874,727)		660,834
Income tax (expense) credit		243,706		(288,815)	178,154		(139,046)
Minority interest in loss of consolidated subsidiaries		155,265		102,968	140,845		316,403
Net income (loss)	$	(415,176)	$	1,670,686	(555,728)	$	838,191
Basic income (loss) per share from continuing operations and net income (loss)	$	(0.11)	$	0.43	(0.14)	$	0.22
Diluted loss per share from continuing operations and net income (loss)	$	(0.11)	$	0.43	(0.14)	$	0.22
Basic weighted average shares outstanding		3,844,844		3,857,099	3,846,444		3,852,876
		3,844,844		3,857,099	3,846,444		3,852,876

Diluted weighted average shares outstanding
See accompanying notes.

UTG, Inc.
AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income
June 30, 2008 (Unaudited)

	Six Months Ended June 30, 2008
Common stock	
Balance, beginning of year	$ 3,849
Issued during year	0
Purchase treasury shares	(7)
Balance, end of period	3,842
Additional paid-in capital	
Balance, beginning of year	42,067,229
Issued during year	0
Purchase treasury shares	(59,760)
Balance, end of period	42,007,469
Retained Earnings	
Balance, beginning of year	2,374,990
Net loss	(555,728)
Balance, end of period	1,819,262
Accumulated other comprehensive income	
Balance, beginning of year	4,308,457
Other comprehensive income	
Unrealized holding losses on securities net of minority interest, reclassification adjustment and taxes	(3,120,302)
Balance, end of period	1,188,155
Total shareholders' equity, end of period	$ 45,018,728
Comprehensive income	
Net loss	$ (555,728)
Unrealized holding losses on securities net of minority interest, reclassification adjustment and taxes	(3,120,302)

Total comprehensive income	$ (3,676,030)

See accompanying notes.

UTG, Inc.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Net income (loss)	$ (555,728)	$ 838,221
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization/accretion of fixed maturities	159,841	(577,988)
Realized investment gains	(78,883)	(3,256,483)
Amortization of deferred policy acquisition costs	83,474	71,180
Amortization of cost of insurance acquired	2,005,533	2,475,103
Depreciation	636,563	280,216
Minority interest	(140,845)	(316,403)
Change in accrued investment income	(187,119)	268,464
Change in reinsurance receivables	1,402,032	(1,151,492)
Change in policy liabilities and accruals	(715,047)	(1,520,198)
Charges for mortality and administration of universal life and annuity products	(4,279,657)	(4,390,186)
Interest credited to account balances	2,538,508	2,609,321
Change in income taxes receivable/payable	(585,570)	2,243,276
Change in other assets and liabilities, net	958,973	2,308,359
Net cash provided by (used in) operating activities	1,242,075	(118,610)
Cash flows from investing activities:		
Proceeds from investments sold and matured:		
Fixed maturities held for sale	11,971,456	43,759,591
Fixed maturities matured	0	1,465,713

Equity securities	1,333,690	140,250
Mortgage loans	3,192,239	4,220,463
Real estate	406,987	21,806,449
Policy loans	2,587,737	2,415,187
Short-term	0	52,195
Total proceeds from investments sold and matured	19,492,109	73,859,848
Cost of investments acquired:		
Fixed maturities held for sale	(9,702,740)	(24,773,336)
Fixed maturities matured	0	(1,319,429)
Equity securities	(2,797,248)	(1,056,079)
Mortgage loans	(5,218,811)	(9,395,874)
Real estate	(2,050,311)	(42,344,110)
Policy loans	(2,227,910)	(2,444,255)
Short-term	0	0
Total cost of investments acquired	(21,997,020)	(81,333,083)
Purchase of property and equipment	(72,750)	(105,925)
Sale of property and equipment	0	1,152,359
Net cash used in investing activities	(2,577,661)	(6,426,801)
Cash flows from financing activities:		
Policyholder contract deposits	3,865,509	4,097,809
Policyholder contract withdrawals	(3,531,413)	(4,075,023)
Payments on notes payable	(2,223,521)	(12,239,803)
Proceeds from notes payable	0	10,869,152
Cash contributed by minority	0	20,465,047
Sale of subsidiary with minority interest	0	(6,343,808)
Purchase of minority interest in consolidated subsidiary	0	(3,195,419)
Issuance of common stock	0	327,898
Purchase of stock of affiliates	(1,487,170)	(1,164,612)
Purchase of treasury stock	(59,767)	(95,944)
Net cash provided by (used in) financing activities	(3,436,362)	8,645,297
Net increase (decrease) in cash and cash equivalents	(4,771,948)	2,099,886
Cash and cash equivalents at beginning of period	17,746,468	8,472,553
Cash and cash equivalents at end of period	$ 12,974,520	$ 10,572,439

See accompanying notes.

UTG, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared by UTG, Inc. ("UTG") and its consolidated subsidiaries ("Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Although the Company believes the disclosures are adequate to make the information presented not be misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto presented in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2007.

The information furnished reflects, in the opinion of the Company, all adjustments (which include only normal and recurring accruals) necessary for a fair presentation of the results of operations for the periods presented. Operating results for interim periods are not necessarily indicative of operating results to be expected for the year or of the Company's future financial condition.

This document at times will refer to the Registrant's largest shareholder, Mr. Jesse T. Correll and certain companies controlled by Mr. Correll. Mr. Correll holds a majority ownership of First Southern Funding LLC ("FSF"), a Kentucky corporation, and First Southern Bancorp, Inc. ("FSBI"), a financial services holding company that owns 100% of First Southern National Bank ("FSNB"), which operates in the State of Kentucky. Mr. Correll is Chief Executive Officer and Chairman of the Board of Directors of UTG and is currently UTG's largest shareholder through his ownership control of FSF, FSBI and affiliates. At June 30, 2008 Mr. Correll owns or controls directly and indirectly approximately 68% of UTG's outstanding stock.

At June 30, 2008, consolidated subsidiaries of UTG, Inc. were as depicted on the following organizational chart.

2. INVESTMENTS

As of June 30, 2008 and December 31, 2007, fixed maturities and fixed maturities held for sale represented 59% and 60%, respectively, of total invested assets. As prescribed by the various state insurance department statutes and regulations, the insurance companies' investment portfolio is required to be invested in investment grade securities to provide ample protection for policyholders. In light of these statutes and regulations, and the Company's business and investment strategy, the Company generally seeks to invest in United States government and government agency securities and other high quality low risk investments. As of June 30, 2008, the carrying value of fixed maturity securities in default as to principal or interest was immaterial in the context of consolidated assets, shareholders' equity or results from operations. The investments held for sale are carried at market, with changes in market value directly charged to shareholders' equity. During the first quarter of 2008 management decided that the remaining fixed maturity investments categorized as held to maturity should be classified as available for sale to provide additional flexibility and liquidity. As such, all fixed maturity investments are available for sale.

3. NOTES PAYABLE

At June 30, 2008 and December 31, 2007, the Company had $17,690,825 and $19,914,346, respectively of long-term debt outstanding.

On December 8, 2006, UTG borrowed funds from First Tennessee Bank National Association through execution of an $18,000,000 promissory note. The note is secured by the pledge of 100% of the common stock of UG. The promissory note carries a variable rate of interest based on the 3 month LIBOR rate plus 180 basis points. The initial rate was 7.15%. Interest is payable quarterly. Principal is payable annually beginning at the end of the second year in five installments of $3,600,000. The loan matures on December 7, 2012. The Company borrowed $0 and has made $1,000,000 in principal payments in 2008.

In addition to the above promissory note, First Tennessee Bank National Association also provided UTG, Inc. with a $5,000,000 revolving credit note. This note is for a one-year term and may be renewed by consent of both parties. The credit note is to provide operating liquidity for UTG, Inc. and replaces a previous line of credit provided by Southwest Bank. Interest bears the same terms as the above promissory note. The collateral held on the above note also secures this credit note. During 2008, UTG, Inc had no borrowings from the note and the Company had no outstanding balance attributable to this note.

On June 1, 2005, UG was extended a $3,300,000 line of credit from the First National Bank of Tennessee. The LOC is for a one-year term from the date of issue. The interest rate on the LOC is variable and indexed to be the lowest of the U.S. prime rates as published in the Wall Street Journal, with any interest rate adjustments to be made monthly. During 2008, UG had no borrowings from the LOC and the Company had no outstanding balance attributable to this LOC.

In November 2007, the Company became a member of the FHLB. This membership allows the Company access to additional credit up to a maximum of 50% of the total assets of UG. To be a member of the FHLB, the Company was required to purchase shares of common stock of FHLB. Borrowing capacity is based on 50 times each dollar of stock acquired in FHLB above the “base membership” amount. The Company’s current LOC with the FHLB is $15,000,000. During 2008, the Company had no borrowings from the LOC and the Company had no outstanding balance attributable to this LOC.

In January 2007, UG became a 50% owner of the newly formed RLF Lexington Properties LLC (“Lexington”). The entity was formed to hold, for investment purposes, certain investment real estate acquired. As part of the purchase price of the real estate owned by Lexington, the seller provided financing through the issuance of five promissory notes of $1,200,000 each totaling $6,000,000. The notes bear interest at the fixed rate of 5%. No payments are due under the terms of the notes until maturity of each note. The notes came due beginning on January 5, 2008, and each January 5 thereafter until 2012 when the final note is repaid. As of June 30, 2008 the outstanding balance was $4,800,000.

On February 7, 2007, HPG Acquisitions (“HPG”), a 74% owned affiliate of the Company, borrowed funds from First National Bank of Midland, through execution of a $373,862 promissory note. The note is secured by real estate owned by HPG. The note bears interest at a fixed rate of 5%. The first payment is due January 15, 2008. There will be 119 regular payments of $3,965 followed by one irregular last payment estimated at $32,424. At June 30, 2008, the outstanding balance on this debt was $346,376.

The consolidated scheduled principal reductions on the notes payable for the next five years are as follows:

Year	Amount
2008	$13,814
2009	$3,278,678
2010	$4,830,151
2011	$4,831,694
2012	$4,527,768
2013	$35,020

4. CAPITAL STOCK TRANSACTIONS

A. Employee and Director Stock Purchase Program

On March 26, 2002, the Board of Directors of UTG adopted, and on June 11, 2002, the shareholders of UTG approved, the UTG, Inc. Employee and Director Stock Purchase Plan. The plan's purpose is to encourage ownership of UTG stock by eligible directors and employees of UTG and its subsidiaries by providing them with an opportunity to invest in shares of UTG common stock. The plan is administered by the Board of Directors of UTG. A total of 400,000 shares of common stock may be purchased under the plan, subject to appropriate adjustment for stock dividends, stock splits or similar recapitalizations resulting in a change in shares of UTG. The plan is not intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code.

The purchase price of shares repurchased under the stock restriction and buy-sell agreement shall be computed, on a per share basis, equal to the sum of (i) the original purchase price(s) paid to acquire such shares from the Holding Company at the time they were sold pursuant to the Plan and (ii) the consolidated statutory net earnings (loss) per share of such shares during the period from the end of the month next preceding the month in which such shares were acquired pursuant to the plan, to the end of the month next preceding the month in which the closing sale of such shares to UTG occurs. The consolidated statutory net earnings per Share shall be computed as the net income of the Holding Company and its subsidiaries on a consolidated basis in accordance with statutory accounting principles applicable to insurance companies, as computed by the Holding Company, except that earnings of insurance companies or block of business acquired after the original plan date, November 1, 2002, shall be adjusted to reflect the amortization of intangibles established at the time of acquisition in accordance with generally accepted accounting principles (GAAP), less any dividends paid to shareholders. The calculation of net earnings per Share shall be performed on a monthly basis using the number of common shares of the Holding Company outstanding as of the end of the reporting period. The purchase price for any Shares purchased hereunder shall be paid in cash within 60 days from the date of purchase subject to the receipt of any required regulatory approvals as provided in the Agreement.

The original issue price of shares at the time this program began was established at $12.00 per share. At June 30, 2008, UTG had 109,319 shares outstanding that were issued under this program with a value of $ 15.60 per share pursuant to the above formula.

B. Stock Repurchase Program

On June 5, 2001, the Board of Directors of UTG authorized the repurchase in the open market or in privately negotiated transactions of up to $ 1 million of UTG's common stock. On June 16, 2004, an additional $ 1 million was authorized for repurchasing shares. On April 18, 2006, an additional $1 million was authorized for repurchasing shares. Repurchased shares are available for future issuance for general corporate purposes. This program can be terminated at any time. Open market purchases are generally limited to a maximum per share price of $8.00. Through July 31, 2008, UTG has spent $2,731,446 in the acquisition of 394,629 shares under this program.

C. Earnings Per Share Calculations

Earnings per share are based on the weighted average number of common shares outstanding during each period, retroactively adjusted to give effect to all stock splits, in accordance with Statement of Financial Accounting Standards No. 128. At June 30, 2008, diluted earnings per share were the same as basic earnings per share since the UTG had no dilutive instruments outstanding.

5. COMMITMENTS AND CONTINGENCIES

The insurance industry has experienced a number of civil jury verdicts which have been returned against life and health insurers in the jurisdictions in which the Company does business involving the insurers' sales practices, alleged agent misconduct, failure to properly supervise agents, and other matters. Some of the lawsuits have resulted in the award of substantial judgments against the insurer, including material amounts of punitive damages. In some states, juries have substantial discretion in awarding punitive damages in these circumstances.

Under the insurance guaranty fund laws in most states, insurance companies doing business in a participating state can be assessed up to prescribed limits for policyholder losses incurred by insolvent or failed insurance companies. Although the Company cannot predict the amount of any future assessments, most insurance guaranty fund laws currently provide that an assessment may be excused or deferred if it would threaten an insurer's financial strength. Mandatory assessments may be partially recovered through a reduction in future premium tax in some states. The Company does not believe such assessments will be materially different from amounts already provided for in the financial statements, though the Company has no control over such assessments.

On June 10, 2002 UTG and Fiserv formed an alliance between their respective organizations to provide third party administration (TPA) services to insurance companies seeking business process outsourcing solutions. Fiserv is responsible for the marketing and sales function for the alliance, as well as providing the operations processing service for the Company. The Company will staff the administration effort. Fiserv (NASDAQ: FISV) is an independent, full-service provider of integrated data processing and information management systems to the financial industry, headquartered in Brookfield, Wisconsin.

In June 2002, the Company entered into a five-year contract with Fiserv for services related to its purchase of the “ID3” software system. The contract was amended during 2006 for a five year period ended 2011. Under the contract, the Company is required to pay $8,333 per month in software maintenance costs and a minimum charge of $14,000 per month in offsite data center costs, for a five-year period ending in 2011.

UTG and its subsidiaries are named as defendants in a number of legal actions arising as a part of the ordinary course of business relating primarily to claims made under insurance policies. Those actions have been considered in establishing the Company’s liabilities. Management is of the opinion that the settlement of those actions will not have a material adverse effect on the Company’s financial position or results of operations.

6. OTHER CASH FLOW DISCLOSURE

On a cash basis, the Company paid $521,317 and $710,323 in interest expense during the first six months of 2008 and 2007, respectively. The Company paid $649,502 and $232,189 in federal income tax during the first six months of 2008 and 2007, respectively.

7. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances in financial institutions that at times may exceed federally insured limits. The Company maintains its primary operating cash accounts with First Southern National Bank, an affiliate of UTG, and its largest shareholder, Chairman and CEO, Jesse Correll. The Company’s cash and cash equivalents are on deposit with various domestic financial institutions. At times, bank deposits may be in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

8. COMPREHENSIVE INCOME

June 30, 2008	Before-Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Unrealized holding losses during Period	$ (4,921,823)	$ 1,722,638	$ (3,199,185)
Less: reclassification adjustment for losses realized in net income	121,358	(42,475)	78,883
Net unrealized losses	(4,800,465)	1,680,163	(3,120,302)
Change in other comprehensive income (loss)	$ (4,800,465)	$ 1,680,163	$ (3,120,302)

9. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS 157 which requires enhanced disclosures of assets and liabilities carried at fair value. SFAS 157 established a hierarchal disclosure framework based on the priority of the inputs to the respective valuation technique. 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). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. SFAS 157 defines the input levels as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 - Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis, as of June 30, 2008.

	Level 1	Level 2	Level 3	Total
Assets				
Fixed Maturities, available for sale	198,484,986			198,484,986
Equity Securities, available for sale	23,871,487		8,219,434	32,090,921
Mortgage Loans		48,028,494		48,028,494
Investment Real Estate			45,121,463	45,121,463
Policy Loans			15,283,410	15,283,410
			933,967	933,967

Short Term Investments				
Cash and cash equivalents	12,974,520			12,974,520
Total Assets	$235,330,993	$48,028,494	$69,558,274	$352,917,761

10. NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") issued Statement No. 163, Accounting for Financial Guarantee Insurance Contracts — an interpretation of FASB Statement No. 60 Diversity exists in practice in accounting for financial guarantee insurance contracts by insurance enterprises under FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises. That diversity results in inconsistencies in the recognition and measurement of claim liabilities because of differing views about when a loss has been incurred under FASB Statement No. 5, Accounting for Contingencies. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the Statement will improve the quality of information provided to users of financial statements. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, Management has determined that this Statement will not result in a change to current practice, since the Company does not issue Financial Guaranty contracts.

The FASB also issued Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement is effective 60 days after the SEC's approval. Management has determined that this Statement will not result in a change to current practice.

The FASB also issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 this Statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management has determined that this Statement will not result in a change to current practice, since the Company does not invest in derivative instruments or hedging activities.

The FASB also issued Statement No. 160, Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Management is currently researching what effect if any that this Statement will have on future reporting.

The FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. The Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The implementation of this Statement had no effect on the Company.

The FASB issued Statement No. 157, Fair Value Measurements. The Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February of 2008, the FASB issued FASB Staff position 157-2 which delays the effective date of SFAS 157 for non-financial assets and liabilities which are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. Adoption of SFAS 157 did not have a material impact on the consolidated financial position, results from operation, or cash flow of the Company

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

The purpose of this section is to discuss and analyze the Company's consolidated results of operations, financial condition and liquidity and capital resources. This analysis should be read in conjunction with the consolidated financial statements and related notes that appear elsewhere in this report. The Company reports financial results on a consolidated basis. The consolidated financial statements include the accounts of UTG and its subsidiaries at June 30, 2008.

Cautionary Statement Regarding Forward-Looking Statements

Any forward-looking statement contained herein or in any other oral or written statement by the Company or any of its officers, directors or employees is qualified by the fact that actual results of the Company may differ materially from any such statement due to the following important factors, among other risks and uncertainties inherent in the Company's business:

1. Prevailing interest rate levels, which may affect the ability of the Company to sell its products, the market value of the Company's investments and the lapse ratio of the Company's policies, notwithstanding product design features intended to enhance persistency of the Company's products.

2. Changes in the federal income tax laws and regulations which may affect the relative tax advantages of the Company's products.

3. Changes in the regulation of financial services, including bank sales and underwriting of insurance products, which may affect the competitive environment for the Company's products.

4. Other factors affecting the performance of the Company, including, but not limited to, market conduct claims, insurance industry insolvencies, insurance regulatory initiatives and developments, stock market performance, an unfavorable outcome in pending litigation, and investment performance.

Update on Critical Accounting Policies

In our Form 10-K for the year ended December 31, 2007, we identified the accounting policies that are critical to the understanding of our results of operations and our financial position. They relate to deferred acquisition costs (DAC), cost of insurance acquired, assumptions and judgments utilized in determining if declines in fair values of investments are other-than-temporary, and valuation methods for investments that are not actively traded.

We believe that these policies were applied in a consistent manner during the first six months of 2008.

Results of Operations

(a) Revenues

The Company experienced a decrease of approximately $(409,000) in premiums and policy fee revenues, net of reinsurance premiums and policy fees, when comparing the first six months of 2008 to the same period in 2007 and an increase of approximately $640,000 for the second quarter comparison. The increase primarily relates to the timing of reinsurance premiums paid during the quarter and the termination of TI's reinsurance agreement in April. The Company currently writes little new business. Unless the Company acquires a block of in-force business management expects premium revenue to continue to decline on the existing block of business at a rate consistent with prior experience.

The Company's primary source of new business production comes from internal conservation efforts. Several of the customer service representatives of the Company are also licensed insurance agents, allowing them to offer other products within the Company's portfolio to existing customers. Additionally, efforts continue to be made in policy retention through more personal contact with the customer including telephone calls to discuss alternatives and reasons for a customer's request to surrender their policy.

The Company has introduced new and updated products in recent periods including the First Annuity, Kid Kare, Full Circle Term and Sentinel Term. Management is currently exploring the feasibility of marketing certain products through its affiliated bank, First Southern National Bank. It is anticipated such marketing efforts would include products such as the new term products and an annuity product. Sales would be supported through the use of the web with Company personnel providing the prospective customer support. Final details have not been completely worked out yet, but launch of this program is anticipated sometime during late 2008 or early 2009. Management anticipates insignificant sales under this program initially. Currently the Company has no other plans to increase marketing efforts. New product development is anticipated to be utilized in conservation efforts and sales to existing customers. Such sales are not expected to be material.

Net investment income decreased approximately 1% when comparing the first six months of 2008 to the same period in 2007 and decreased approximately 9% in comparing second quarter results. This decrease is primarily related to the Company holding fewer fixed maturity investments and carrying cash balances earning lower rates of interest compared to a year ago. An increase in mortgage loan interest and dividends from oil and gas investments helped offset the decline. Management anticipates a decline in investment income in coming periods as a result of recent declines in interest rates in the marketplace. Interest earned on cash balances will have an immediate impact on the Company with continued pressure on reinvestment rates of current investments as they mature.

The Company continues to leverage its affiliation with FSNB through the investment in mortgage loans. This has allowed the Company to obtain higher yields than available in the bond market, lengthen the overall portfolio average life and still maintain a conservative investment portfolio. A portion of the mortgage loan portfolio contains floating interest rates. With the current state of the U.S. economy and general interest rate cuts in early 2008, management anticipates yields of its floating rate investments to decline during 2008.

The Company's investments are generally managed to match related insurance and policyholder liabilities. The comparison of investment return with insurance or investment product crediting rates establishes an interest spread. The Company monitors investment yields, and when necessary adjusts credited interest rates on its insurance products to preserve targeted interest spreads, ranging from 1% to 2%. Interest crediting rates on adjustable rate policies have been reduced to their guaranteed minimum rates, and as such, cannot lower them any further. Policy interest crediting rate changes and expense load changes become effective on an individual policy basis on the next policy anniversary. Therefore, it takes a full year from the time the change was determined for the full impact of such change to be realized. If interest rates decline in the future, the Company won't be able to lower rates and both net investment income and net income will be impacted negatively.

The Company had realized investment gains of $78,883 in the first six months of 2008 compared to net realized investment gains of $1,630,512 for the same period in 2007. The realized gains in 2008 are investment gains on bonds. In 2007, the net realized gains were primarily originated from the sale of a real estate holding.

During July, after Management's review of the Company's investment portfolio, it was determined to be in the best long term interest of the Company to liquidate certain bond and stock investments. Realized losses of approximately $(2,754,000) and $(235,000) on common stocks and bonds, respectively, were incurred and will be reported in the third quarter financial results. The stock holdings sold were all publicly traded bank stocks owned by the Company. Financial institution stocks in general have experienced a significant decline during the first half of 2008 due to current economic conditions and concerns relating to historic lending practices including sub-prime mortgage loans.

Other income has remained consistent over the periods presented. Other income primarily represents revenues received relating to the performance of administrative work as a TPA for unaffiliated life insurance companies. The Company receives monthly fees based on policy in force counts and certain other activity indicators such as number of policies issued. The Company has not had any substantial change in its TPA client base or activity related fees of existing clients during the periods presented in the financial statements. Management remains committed to the pursuit of additional TPA clients and believes this area continues to show potential for growth.

(b) Expenses

Life benefits, claims and settlement expenses net of reinsurance benefits and claims, increased approximately 3% in the first six months of 2008 compared to the same period in 2007 and increased approximately 20% during the second quarter comparison. Mortality experience was approximately $1,028,000 higher during the second quarter compared to a year ago. Policy claims vary from period to period and therefore, fluctuations in mortality are to be expected and are not considered unusual by management. Overall, reserves continue to increase on in-force policies as the average age of the insured increases.

Commissions and amortization of deferred policy acquisition costs decreased approximately 2% for the first six months of 2008 compared to the same period in 2007 and increased approximately 40% during the second quarter. AC and TI reinsurance agreements that are in place with outside companies drive the majority of this number. TI's reinsurance agreement terminated in April of this year affecting the increase during the quarter. Another significant factor in the continuing decrease is attributable to the Company paying fewer commissions since the Company writes very little new business and renewal premiums on existing business continue to decline. Most of the Company's agent agreements contained vesting provisions, which provide for continued compensation payments to agents upon their termination subject to certain minimums and often limited to a specific period of time. Another factor of the decrease is attributable to normal amortization of the deferred policy acquisition costs asset. The Company reviews the recoverability of the asset based on current trends and known events compared to the assumptions used in the establishment of the original asset. No impairments were recorded in any of the periods presented.

Operating expenses decreased 7% in the first six months of 2008 compared to the same period in 2007 and decreased approximately 10% during the second quarter. The Company continually monitors expenditures looking for savings opportunities. Management places significant emphasis on expense monitoring and cost containment. Maintaining administrative efficiencies directly impacts net income.

(c) Net income

The Company had a net loss of $(555,728) in the first six months of 2008 compared to a net gain of $838,191 for the same period in 2007. The decrease over the same period last year is mainly attributable to substantially lower realized investment gains. The Company had a net loss of $(415,176) during the current quarter compared to a net gain of $1,670,686 for the same period in 2007. The decrease over the same period last year is also mainly attributable to substantially lower realized investment gains.

Financial Condition

Total shareholders' equity decreased approximately $3,736,000 as of June 30, 2008 compared to December 31, 2007. The decrease is primarily attributable to a decrease in the market value of the Company's equity and fixed maturity investments that was included in the accumulated other comprehensive income.

Investments represent approximately 73% and 71% of total assets at June 30, 2008 and December 31, 2007, respectively. Accordingly, investments are the largest asset group of the Company. The Company's insurance subsidiaries are regulated by insurance statutes and regulations as to the type of investments that they are permitted to make and the amount of funds that may be used for any one type of investment. In light of these statutes and regulations, the majority of the Company's investment portfolio is invested in high quality, low risk investments.

As of June 30, 2008, the carrying value of fixed maturity securities in default as to principal or interest was immaterial in the context of consolidated assets, shareholders' equity or results from operations. To provide additional flexibility and liquidity, the Company has identified all fixed maturity securities as "investments held for sale". Investments held for sale are carried at market, with changes in market value charged directly to shareholders' equity.

Liquidity and Capital Resources

The Company has three principal needs for cash - the insurance companies' contractual obligations to policyholders, the payment of operating expenses and debt service. Cash and cash equivalents as a percentage of total assets were approximately 3% and 4% as of June 30, 2008, and December 31, 2007, respectively. Fixed maturities as a percentage of total assets were approximately 43% and 43% as of June 30, 2008 and December 31, 2007, respectively.

Sub-prime mortgage lending has received significant attention. Default rates have risen sharply on these loans causing a negative impact in the economy in general. As of June 30, 2008, the Company held investments in certain financial institution common stocks and bonds whose market values have declined as a result of these factors and have impacted the Company through unrealized investment losses.

Future policy benefits are primarily long-term in nature and therefore, the Company's investments are predominantly in long-term fixed maturity investments such as bonds and mortgage loans which provide sufficient return to cover these obligations.

Many of the Company's products contain surrender charges and other features which reward persistency and penalize the early withdrawal of funds. With respect to such products, surrender charges are generally sufficient to cover the

Company's unamortized deferred policy acquisition costs with respect to the policy being surrendered.

Net cash provided by (used in) operating activities was $1,242,075 and $(118,610) for the six months ending June 30, 2008 and 2007, respectively.

Net cash used in investing activities was $(2,577,661) and $(6,426,801) for the six month periods ending June 30, 2008 and 2007, respectively. The most significant aspects of cash used in investing activities are the fixed maturity transactions. The Company had fixed maturities in the amount of $11,971,456 and $43,759,591 that sold and matured in the first six months of 2008 and 2007, respectively. In addition, the Company purchased $9,702,740 and $26,092,765 of fixed maturities in 2008 and 2007, respectively. Also during 2008, the Company increased its equity and mortgage loan investments.

Net cash provided by (used in) financing activities was $(3,436,362) and $8,645,297 for the six month periods ending June 30, 2008 and 2007, respectively. Policyholder contract deposits decreased approximately 6% in the first six months of 2008 compared to the same period in 2007. Policyholder contract withdrawals decreased approximately 13% in the first six months of 2008 compared to the same period in 2007. Payments of $2,223,521 were also a significant factor in cash used in financing activities.

On June 30, 2008, the Company made a $1,000,000 principal reduction payment on debt outstanding. The Company remains ahead of schedule on debt repayment. At June 30, 2008, the Company had $17,690,825 of long-term debt outstanding. The debt is mainly attributable to the acquisition of Acap at the end of 2006.

UTG is a holding company that has no day-to-day operations of its own. Funds required to meet its expenses, generally costs associated with maintaining the company in good standing with states in which it does business, and the servicing of its debt, are primarily provided by its subsidiaries. On a parent only basis, UTG's cash flow is dependent on management fees received from its insurance subsidiaries, stockholder dividends from its subsidiaries and earnings received on cash balances. At June 30, 2008, substantially all of the consolidated shareholders equity represents net assets of its subsidiaries. The Company's insurance subsidiaries have maintained adequate statutory capital and surplus. The payment of cash dividends to shareholders by UTG is not legally restricted. However, the state insurance department regulates insurance company dividend payments where the company is domiciled. No dividends were paid to shareholders in 2007 or the first six months of 2008.

UG is an Ohio domiciled insurance company, which requires five days prior notification to the insurance commissioner for the payment of an ordinary dividend. Ordinary dividends are defined as the greater of: a) prior year statutory earnings or b) 10% of statutory capital and surplus. At December 31, 2007 UG statutory shareholders' equity was $30,130,717. At December 31, 2007, UG statutory net income was $4,661,648. Extraordinary dividends (amounts in excess of ordinary dividend limitations) require prior approval of the insurance commissioner and are not restricted to a specific calculation. UG paid dividends to the Company in the amount of $1,000,000 during 2008.

AC and TI are Texas domiciled insurance companies, which requires eleven days prior notification to the insurance commissioner for the payment of an ordinary dividend. Ordinary dividends are defined as the greater of: a) prior year statutory earnings or b) 10% of statutory capital and surplus. At December 31, 2007 AC and TI statutory shareholders' equity was $8,165,775 and $2,432,191, respectively. At December 31, 2007, AC and TI statutory net income was $999,329 and $289,642, respectively. Extraordinary dividends (amounts in excess of ordinary dividend limitations) require prior approval of the insurance commissioner and are not restricted to a specific calculation. There were no dividends paid during 2008.

Management believes the overall sources of liquidity available will be sufficient to satisfy the Company’s financial obligations.

Accounting Developments

The Financial Accounting Standards Board ("FASB") issued Statement No. 163, Accounting for Financial Guarantee Insurance Contracts — an interpretation of FASB Statement No. 60 Diversity exists in practice in accounting for financial guarantee insurance contracts by insurance enterprises under FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises. That diversity results in inconsistencies in the recognition and measurement of claim liabilities because of differing views about when a loss has been incurred under FASB Statement No. 5, Accounting for Contingencies. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the Statement will improve the quality of information provided to users of financial statements. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, Management has determined that this Statement will not result in a change to current practice, since the Company does not issue Financial Guaranty contracts.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk relates, broadly, to changes in the value of financial instruments that arise from adverse movements in interest rates, equity prices and foreign exchange rates. The Company is exposed principally to changes in interest rates, which affect the market prices of its fixed maturities available for sale and its variable rate debt outstanding. The Company's exposure to equity prices and foreign currency exchange rates is immaterial. The information presented below is in U.S. dollars, the Company's reporting currency.

Interest rate risk

The Company's exposure to interest rate changes results from a significant holding of fixed maturity investments and mortgage loans on real estate, all of which comprised approximately 74% of the investment portfolio as of June 30, 2008. These investments are mainly exposed to changes in treasury rates. The fixed maturities investments include U.S. government bonds, securities issued by government agencies, mortgage-backed bonds and corporate bonds. Approximately 68% of the fixed maturities we owned at June 30, 2008 are instruments of the United States government or are backed by U.S. government agencies or private corporations carrying the implied full faith and credit backing of the U.S. government.

To manage interest rate risk, the Company performs periodic projections of asset and liability cash flows to evaluate the potential sensitivity of the investments and liabilities. Management assesses interest rate sensitivity with respect to the available-for-sale fixed maturities investments using hypothetical test scenarios that assume either upward or downward 100-basis point shifts in the prevailing interest rates. The following tables set forth the potential amount of unrealized gains (losses) that could be caused by 100-basis point upward and downward shifts on the available-for-sale fixed maturities investments as of June 30, 2008:

Decreases in Interest Rates		Increases in Interest Rates	
200 Basis Points	100 Basis Points	100 Basis Points	200 Basis Points
$ 15,345,000	$ 7,929,000	$ (11,258,000)	$ (20,141,000)

While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed-income markets, it is a near-term change that illustrates the potential impact of such events. Due to the composition of the Company's book of insurance business, management believes it is unlikely that the Company would encounter large surrender activity due to a significant interest rate increase. Such an increase would force the Company to dispose fixed maturities at a loss.

There are no fixed maturities or other investments that management classifies as trading instruments. At June 30, 2008 and December 31, 2007, there were no investments in derivative instruments.

The Company had no capital lease obligations, material operating lease obligations or purchase obligations outstanding as of June 30, 2008.

The Company currently has $17,690,825 debt outstanding.

ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the filing date of this quarterly report, an evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective in alerting them on a timely basis to material information relating to the Company required to be included in the Company's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation.

ITEM 4T. CONTROLS AND PROCEDURES

Not applicable at this time.

PART II. OTHER INFORMATION.

ITEM 1. LEGAL PROCEEDINGS.

NONE

ITEM 1A. RISK FACTORS.

NONE

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

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At the Annual Meeting of Shareholders held on June 18, 2008, the following matters were submitted to the shareholders of UTG and voted on as indicated:

1. To elect ten directors to serve for a term of one year and until their successors are elected and qualified:

DIRECTOR	FOR	WITHHELD	AGAINST
John S. Albin	2,860,257	731	8,163

Randall L. Attkisson	2,860,132	304	8,715
Joseph A. Brinck II	2,858,148	142	10,861
Jesse T. Correll	2,859,770	750	8,631
Ward F. Correll	2,856,819	1387	10,945
Thomas F. Darden II	2,860,868	120	8,163
Howard L. Dayton Jr.	2,860,642	262	8,247
Peter L Ochs	2,858,028	262	10,861
William W. Perry	2,860,868	120	8,163
James P. Rousey	2,860,258	262	8,631

ITEM 5. OTHER INFORMATION.

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS

Exhibit Number	Description
31.1	Certification of Jesse T. Correll, Chief Executive Officer and Chairman of the Board of UTG, as required pursuant to Section 302
31.2	Certification of Theodore C. Miller, Chief Financial Officer, Senior Vice President and Corporate Secretary of UTG, as required pursuant to Section 302
32.1	Certificate of Jesse T. Correll, Chief Executive Officer and Chairman of the Board of UTG, as required pursuant to 18 U.S.C. Section 1350
32.2	Certificate of Theodore C. Miller, Chief Financial Officer, Senior Vice President and Corporate Secretary of UTG, as required pursuant to 18 U.S.C. Section 1350

REPORTS ON FORM 8-K

NONE

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.

UTG, INC.
(Registrant)

Date: August 13, 2008

By /s/ James P. Rousey
James P. Rousey
President, and Director

Date: August 13, 2008

By /s/ Theodore C. Miller
Theodore C. Miller
Senior Vice President
and Chief Financial Officer

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