

NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
November 09, 2006

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2006

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

For the transition period from _____ to _____

Commission File Number: 2-17039

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

COLORADO
(State of Incorporation)

84-0467208
(I.R.S. Employer Identification Number)

850 EAST ANDERSON LANE
AUSTIN, TEXAS 78752-1602
(Address of Principal Executive Offices)

(512) 836-1010
(Telephone Number)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 6, 2006, the number of shares of Registrant's common stock outstanding was: Class A - 3,420,824 and Class B - 200,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	(Unaudited) September 30, 2006	December 31, 2005
	<u> </u>	<u> </u>
Investments:		
Securities held to maturity, at amortized cost	\$ 3,588,868	3,524,724
Securities available for sale, at fair value	1,786,152	1,744,727
Mortgage loans, net of allowances for possible losses	105,894	110,639
Policy loans	85,806	86,385
Derivatives	52,147	39,405
Other long-term investments	24,455	30,013
	<u> </u>	<u> </u>
Total investments	5,643,322	5,535,893

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Cash and short-term investments	125,243	31,355
Deferred policy acquisition costs	634,832	620,129
Deferred sales inducements	90,903	80,450
Accrued investment income	61,898	61,283
Federal income tax receivable	-	2,107
Other assets	45,483	37,791
	<u>6,601,681</u>	<u>6,369,008</u>
	<u>\$ 6,601,681</u>	<u>6,369,008</u>

Note: The condensed consolidated balance sheet at December 31, 2005, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) September 30, 2006	December 31, 2005
	<u>2006</u>	<u>2005</u>
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	\$ 138,697	139,309
Universal life and annuity contracts	5,325,787	5,176,610
Other policyholder liabilities	116,471	100,557
Federal income tax liability:		
Current	534	-
Deferred	32,146	37,735
Other liabilities	70,030	40,789
Total liabilities	<u>5,683,665</u>	<u>5,495,000</u>

COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)

STOCKHOLDERS' EQUITY:

Common stock:

Class A - \$1 par value; 7,500,000 shares authorized; 3,420,824

issued and outstanding in 2006 and 3,412,839 issued and outstanding in 2005	3,421	3,413
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2006 and 2005	200	200
Additional paid-in capital	37,222	37,923
Accumulated other comprehensive income	4,188	10,564
Retained earnings	872,985	821,908
Total stockholders' equity	918,016	874,008
	<u>\$ 6,601,681</u>	<u>6,369,008</u>

Note: The condensed consolidated balance sheet at December 31, 2005, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended September 30, 2006 and 2005

(Unaudited)

(In thousands, except per share amounts)

	2006	2005
Premiums and other revenue:		
Traditional life and annuity premiums	\$ 3,654	3,378
Universal life and annuity contract revenues	26,923	24,756
Net investment income	96,049	87,893
Other income	3,064	2,570
Realized gains on investments	190	1,430
Total premiums and other revenue	129,880	120,027
Benefits and expenses:		
Life and other policy benefits	9,212	9,278
Amortization of deferred policy acquisition costs	24,430	24,298
Universal life and annuity contract interest	59,065	43,237
Other operating expenses	12,513	12,340

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Total benefits and expenses	105,220	89,153
Earnings before Federal income taxes	24,660	30,874
Provision for Federal income taxes:		
Current	8,214	9,157
Deferred	374	1,548
Total Federal income taxes	8,588	10,705
Net earnings	\$ 16,072	20,169
Basic Earnings Per Share	\$ 4.44	5.59
Diluted Earnings Per Share	\$ 4.40	5.53

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Nine Months Ended September 30, 2006 and 2005

(Unaudited)

(In thousands, except per share amounts)

	2006	2005
Premiums and other revenue:		
Traditional life and annuity premiums	\$ 11,742	10,791
Universal life and annuity contract revenues	79,477	73,346
Net investment income	261,059	230,127
Other income	11,271	7,122
Realized gains on investments	3,229	10,014
Total premiums and other revenue	366,778	331,400
Benefits and expenses:		
Life and other policy benefits	28,300	29,938
Amortization of deferred policy acquisition costs	69,443	65,697
Universal life and annuity contract interest	138,678	109,764
Other operating expenses	51,611	34,481

Total benefits and expenses	288,032	239,880
	<u> </u>	<u> </u>
Earnings before Federal income taxes	78,746	91,520
	<u> </u>	<u> </u>
Provision (benefit) for Federal income taxes:		
Current	28,987	27,041
Deferred	(2,585)	4,010
	<u> </u>	<u> </u>
Total Federal income taxes	26,402	31,051
	<u> </u>	<u> </u>
Net earnings	\$ 52,344	60,469
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Basic Earnings Per Share	\$ 14.46	16.80
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Diluted Earnings Per Share	\$ 14.32	16.64
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended September 30, 2006 and 2005

(Unaudited)

(In thousands)

	2006	2005
	<u> </u>	<u> </u>
Net earnings	\$ 16,072	20,169
	<u> </u>	<u> </u>
Other comprehensive income (loss) net of effects of deferred policy acquisition costs and taxes:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	15,866	(10,854)
Reclassification adjustment for gains included in net earnings	(42)	(799)
Amortization of net unrealized losses related to transferred securities	6	219
	<u> </u>	<u> </u>
Net unrealized gains (losses) on securities	15,830	(11,434)
	<u> </u>	<u> </u>
Foreign currency translation adjustments	(317)	150
	<u> </u>	<u> </u>

Other comprehensive income (loss)	<u>15,513</u>	<u>(11,284)</u>
Comprehensive income	<u>\$ 31,585</u>	<u>8,885</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Nine Months Ended September 30, 2006 and 2005

(Unaudited)

(In thousands)

	<u>2006</u>	<u>2005</u>
Net earnings	<u>\$ 52,344</u>	<u>60,469</u>
Other comprehensive income (loss), net of effects of deferred policy acquisition costs and taxes:		
Net unrealized losses on securities:		
Net unrealized holding losses arising during period	(4,394)	(9,584)
Reclassification adjustment for gains included in net earnings	(1,740)	(1,331)
Amortization of net unrealized losses (gains) related to transferred securities	<u>(90)</u>	<u>231</u>
Net unrealized losses on securities	(6,224)	(10,684)
Foreign currency translation adjustments	<u>(152)</u>	<u>335</u>
Other comprehensive loss	<u>(6,376)</u>	<u>(10,349)</u>
Comprehensive income	<u>\$ 45,968</u>	<u>50,120</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2006 and 2005

(Unaudited)

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(In thousands)

	<u>2006</u>	<u>2005</u>
Common stock:		
Balance at beginning of year	\$ 3,613	3,584
Shares exercised under stock option plan	8	28
Balance at end of period	<u>3,621</u>	<u>3,612</u>
Additional paid-in capital:		
Balance at beginning of year	37,923	33,834
Shares exercised under stock option plan	1,615	2,918
Adjustment for stock option liability classification	(2,316)	-
Stock option expense	-	746
Balance at end of period	<u>37,222</u>	<u>37,498</u>
Accumulated other comprehensive income:		
Unrealized gains on securities:		
Balance at beginning of year	10,401	25,032
Change in unrealized losses during period	(6,224)	(10,684)
Balance at end of period	<u>4,177</u>	<u>14,348</u>
Foreign currency translation adjustments:		
Balance at beginning of year	3,300	3,170
Change in translation adjustments during period	(152)	335
Balance at end of period	<u>3,148</u>	<u>3,505</u>
Minimum pension liability adjustment:		
Balance at beginning of year	(3,137)	(2,783)
Change in minimum pension liability adjustment during period	-	-
Balance at end of period	<u>(3,137)</u>	<u>(2,783)</u>
Accumulated other comprehensive income at end of period	<u>4,188</u>	<u>15,070</u>
Retained earnings:		
Balance at beginning of year	821,908	745,835
Net earnings	52,344	60,469
Stockholder dividends	(1,267)	-

Balance at end of period	872,985	806,304
	<u> </u>	<u> </u>
Total stockholders' equity	\$ 918,016	862,484
	<u> </u>	<u> </u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2006 and 2005

(Unaudited)

(In thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net earnings	\$ 52,344	60,469
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	138,678	109,764
Surrender charges and other policy revenues	(24,226)	(22,031)
Realized gains on investments	(3,229)	(10,014)
Accrual and amortization of investment income	(3,793)	(3,033)
Depreciation and amortization	1,030	1,153
Decrease (increase) in value of derivatives	(7,901)	9,131
Increase in deferred policy acquisition and sale inducement costs	(6,479)	(12,130)
Increase in accrued investment income	(615)	(2,281)
Increase in other assets	(7,126)	(2,989)
Decrease in liabilities for future policy benefits	(612)	(1,869)
Increase in other policyholder liabilities	15,913	15,392
Increase in Federal income tax liability	987	79
Increase (decrease) in other liabilities	14,941	(743)
Other	(72)	350
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>169,840</u>	<u>141,248</u>
Cash flows from investing activities:		
Proceeds from sales of:		
Securities held to maturity	-	10,337
Securities available for sale	21,502	24,242
Other investments	32,951	44,515

Proceeds from maturities and redemptions of:		
Securities held to maturity	199,590	266,714
Securities available for sale	86,848	112,376
Purchases of:		
Securities held to maturity	(254,994)	(466,563)
Securities available for sale	(160,576)	(250,498)
Other investments	(33,039)	(28,226)
Principal payments on mortgage loans	8,867	17,828
Cost of mortgage loans acquired	(3,999)	(6,836)
Decrease (increase) in policy loans	(29)	2,221
Other	(247)	(278)
	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(103,126)</u>	<u>(274,168)</u>

(Continued on next page)

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the Nine Months Ended September 30, 2006 and 2005

(Unaudited)

(In thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	\$ 419,003	476,761
Return of account balances on universal life and annuity contracts	(393,077)	(343,846)
Issuance of common stock under stock option plan	510	1,835
	<u> </u>	<u> </u>
Net cash provided by financing activities	<u>26,436</u>	<u>134,750</u>
Effect of foreign exchange	<u>738</u>	<u>567</u>
Net increase in cash and cash equivalents	93,888	2,397
Cash and cash equivalents at beginning of year	<u>31,355</u>	<u>50,194</u>
Cash and cash equivalents at end of period	<u>\$ 125,243</u>	<u>52,591</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the nine month period for:

Interest	\$	30	30
Income taxes		24,990	30,900

See accompanying notes to condensed consolidated financial statements.

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

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of September 30, 2006, and the results of its operations and its cash flows for the three months and nine months ended September 30, 2006 and 2005. The results of operations for the three months and nine months ended September 30, 2006 and 2005 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission internet site at www.sec.gov.

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

Certain reclassifications have been made to the prior periods to conform to the reporting categories used in 2006.

(2) CHANGES IN ACCOUNTING PRINCIPLES

In May of 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 154, *Accounting Changes and Error Correction*. This standard is a replacement of Accounting Policy Board Opinion No. 20, *Accounting Changes*, and FASB Standard No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Under the new standard, any voluntary changes in accounting principles are to be adopted via a retrospective application of the accounting principle in the financial statements presented and an opinion obtained from the auditors that the new principle is preferred. In addition, adoption of a change in accounting principle required by the issuance of a new accounting standard will also require retroactive restatement, unless the new standard includes explicit transition guidelines. This standard was effective for fiscal years beginning after December 15, 2005. Adoption of this standard did not have an impact on the consolidated financial statements of the Company.

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*. This Issue establishes impairment models for determining whether to record impairment losses associated with investments in certain equity and debt securities and requires expanded disclosures related to securities with unrealized losses. It also requires income to be accrued on a level-yield basis following an impairment of debt securities, where reasonable estimates of the timing and amount of future cash flows can be made. The Company's current policy has generally been to record income only as cash is received following an impairment of a debt security. The application of this Issue was required for reporting periods beginning after June 15, 2004. In September 2004, the FASB approved FASB Staff Position EITF 03-1-1, which deferred the effective date for the recognition and measurement guidance contained in EITF 03-1 until certain issues were resolved. On November 3, 2005, the FASB issued FASB Staff Position ("FSP") Nos. SFAS 115-1 and SFAS 124-1 titled *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FSP nullifies certain requirements of EITF 03-1 and carries forward certain requirements and disclosures. The guidance in this FSP is to be applied to reporting periods beginning after December 15, 2005. The Company has adopted the disclosure provisions and has included the required disclosures. The Company did adopt FSP Nos. SFAS 115-1 and SFAS 124-1 as of the beginning of fiscal year 2006, and the FSP did not have a material impact on the consolidated financial statements of the Company.

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

In September 2005, the AICPA issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FASB No. 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. The Company is currently assessing the impact related to the adoption of SOP 05-1 on the consolidated financials statements of the Company.

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

On February 16, 2006, the FASB issued SFAS 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS 133, *Accounting for Derivatives and Hedging Activities*, and SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Hybrid financial instruments are single financial instruments that contain an embedded derivative. Under SFAS 155, entities can elect to record certain hybrid financial instruments at fair value as individual financial instruments. Prior to this amendment, certain hybrid financial instruments were required to be separated into two instruments - a derivative and host - and generally only the

derivative was recorded at fair value. SFAS 155 also requires that beneficial interests in securitized assets be evaluated for either freestanding or embedded derivatives. SFAS 155 is effective for all financial instruments acquired or issued after January 1, 2007. SFAS 155 is not expected to have a material effect on the Company's consolidated financial statements on the date of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement could change current practices in determining fair value. The Company plans to adopt this guidance effective January 1, 2008. The Company is currently assessing the impact of SFAS No. 157 on the Company's consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106 and 132(R). This statement requires an employer on a prospective basis to recognize the overfunded or underfunded status of its defined benefit pension and postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This requirement, along with the required disclosures, is effective for fiscal years ending after December 15, 2006. SFAS No. 158 also requires an employer on a prospective basis to measure the funded status of its plans as of its fiscal year-end, and is effective for fiscal years ending after December 15, 2008. The Company is currently assessing the impact of this new standard.

In September 2006, the staff of the SEC issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. The interpretations in this SAB express the staff's views regarding the process of quantifying financial statement misstatements. Specifically, the SEC staff believes that registrants must quantify the impact on current period financial statements of correcting all misstatements, including both those occurring in the current period and the effect of reversing those that have accumulated from prior periods. This SAB should be applied beginning with the first fiscal year ending after November 15, 2006, with early adoption encouraged. The adoption of SAB No. 108 is not expected to impact the financial position and results of operations of the Company.

(3) STOCKHOLDERS' EQUITY

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The Company paid no cash dividends on common stock during the nine months ended September 30, 2006 and 2005. However, the Company declared a cash dividend on August 18, 2006 payable November 29, 2006 to stockholders on record as of October 31, 2006. The dividends declared were \$0.36 per common share to Class A stockholders and \$0.18 per common share to Class B stockholders. The dividend payment was approved by the Colorado Division of Insurance.

(4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options. Refer to Exhibit 11 of this report for further information concerning the computation of earnings per share.

(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The following summarizes the components of net periodic benefit costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Service cost	\$ 175	171	518	514
Interest cost	279	243	766	730
Expected return on plan assets	(255)	(227)	(710)	(682)
Amortization of prior service cost	1	1	3	3
Amortization of net loss	99	83	264	248
Net periodic benefit cost	\$ 299	271	841	813

The Company has contributed \$1.0 million to the qualified plan in 2006. No further contributions are expected in 2006.

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

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

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

The following summarizes the components of net periodic benefit costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Service cost	\$ 574	535	1,222	746
Interest cost	385	95	531	184
Amortization of prior service cost	457	246	780	392
Amortization of net loss	137	(1)	137	1
Net periodic benefit cost	\$ 1,553	875	2,670	1,323

The Company expects to contribute \$1.1 million to the non-qualified plans in 2006. As of September 30, 2006, the Company has contributed \$0.9 million to the plan.

(B) Defined Benefit Postretirement Plans

The Company sponsors two healthcare plans that were amended in 2004 to provide postretirement benefits to certain fully-vested individuals. The following summarizes the components of net periodic benefit cost.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Interest cost	\$ 38	25	88	75
Amortization of prior service cost	26	26	77	77
Net periodic benefit cost	\$ 64	51	165	152

As previously disclosed in its financial statements for the year ended December 31, 2005, the Company expects to contribute minimal amounts to the healthcare plans in 2006.

(6) SEGMENT AND OTHER OPERATING INFORMATION

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Under Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures About Segments of an Enterprise and Related Information*, the Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended September 30, 2006 and 2005 is provided below.

Selected Segment Information.

	<u>Domestic Life Insurance</u>	<u>International Life Insurance</u>	<u>Annuities</u>	<u>All Others</u>	<u>Totals</u>
	(In thousands)				
September 30, 2006:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$ 49,041	177,482	499,212	-	725,735
Total segment assets	377,777	691,455	5,414,024	98,269	6,581,525
Future policy benefits	312,671	479,838	4,671,975	-	5,464,484
Other policyholder liabilities	9,702	21,680	85,089	-	116,471
Three Months Ended September 30, 2006:					
Condensed Income Statements:					
Premiums and contract revenues	\$ 5,932	19,364	5,281	-	30,577
Net investment income	4,545	6,771	83,900	833	96,049
Other income	<u>10</u>	<u>21</u>	<u>106</u>	<u>2,927</u>	<u>3,064</u>
Total revenues	<u>10,487</u>	<u>26,156</u>	<u>89,287</u>	<u>3,760</u>	<u>129,690</u>
Life and other policy benefits	3,505	4,984	723	-	9,212
Amortization of deferred policy acquisition costs	1,496	6,951	15,983	-	24,430

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Universal life and annuity contract interest	2,293	7,185	49,587	-	59,065
Other operating expenses	2,533	3,131	4,027	2,822	12,513
Federal income taxes	212	1,376	6,598	336	8,522
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>10,039</u>	<u>23,627</u>	<u>76,918</u>	<u>3,158</u>	<u>113,742</u>
Segment earnings	\$ <u>448</u>	<u>2,529</u>	<u>12,369</u>	<u>602</u>	<u>15,948</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
			(In thousands)		

Nine Months Ended
September 30, 2006:

C o n d e n s e d I n c o m e
S t a t e m e n t s :

Premiums and contract

revenues	\$ 17,465	57,448	16,306	-	91,219
Net investment income	14,761	18,958	223,307	4,033	261,059
Other income	<u>25</u>	<u>66</u>	<u>2,968</u>	<u>8,212</u>	<u>11,271</u>
Total revenues	<u>32,251</u>	<u>76,472</u>	<u>242,581</u>	<u>12,245</u>	<u>363,549</u>
Life and other policy benefits	11,536	14,204	2,560	-	28,300
Amortization of deferred					
policy acquisition costs	4,868	16,462	48,113	-	69,443
Universal life and annuity contract interest	6,836	16,399	115,443	-	138,678
Other operating expenses	9,995	14,956	18,987	7,673	51,611
Federal income taxes (benefit)	<u>(328)</u>	<u>4,836</u>	<u>19,235</u>	<u>1,529</u>	<u>25,272</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>