

NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q/A
October 26, 2006

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

FORM 10-Q/A
AMENDMENT NO. 2

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

For the Quarterly Period Ended March 31, 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 May 8, 2006, the number of shares of Registrant's common stock outstanding was: Class A - 3,420,544 and Class B - 200,000.

Explanatory Note

The purpose of this Amendment No. 2 to the Quarterly Report on Form 10-Q of National Western Life Insurance Company for the first quarter ended March 31, 2006 is to include the review report of KPMG, LLP, in accordance with Article 10 of Regulation S-X. This amended Form 10-Q/A does not attempt to modify or update any other disclosures set forth in the original Form 10-Q filed May 15, 2006, or the Amendment No. 1 to Form 10-Q filed May 16, 2006, and continues to reflect circumstances as of the date of the original filing.

INDEX

Page

Review Report of Independent Registered Public Accounting Firm

Part I. Financial Information:

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

March 31, 2006 (Unaudited) and December 31, 2005

Condensed Consolidated Statements of Earnings

For the Three Months Ended March 31, 2006 and 2005 (Unaudited)

Condensed Consolidated Statements of Comprehensive Income

For the Three Months Ended March 31, 2006 and 2005 (Unaudited)

Condensed Consolidated Statements of Stockholders' Equity

For the Three Months Ended March 31, 2006 and 2005 (Unaudited)

Condensed Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2006 and 2005 (Unaudited)

Notes to Condensed Consolidated Financial Statements (Unaudited)

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Part II. Other Information:

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 5. Other Information

Item 6. Exhibits

Signatures

Review Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
National Western Life Insurance Company:

We have reviewed the accompanying condensed consolidated balance sheet of National Western Life Insurance Company and subsidiaries (the Company) as of March 31, 2006, the related condensed consolidated statements of earnings for the three-month periods ended March 31, 2006 and 2005, the related condensed consolidated statements of comprehensive income for the three-month periods ended March 31, 2006 and 2005, the related condensed consolidated statement of stockholders' equity for the three-month periods ended March 31, 2006 and 2005, and the related condensed consolidated statements of cash flows for the three-month periods ended March 31, 2006 and 2005. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of National Western Life Insurance Company and subsidiaries as of December 31, 2005, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 15, 2006, we expressed an unqualified opinion on those consolidated financial statements. Our report refers to a change in accounting for two-tiered annuity products in 2004. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ KPMG LLP

Austin, Texas
May 16, 2006

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	(Unaudited) March 31, 2006	December 31, 2005
	<u> </u>	<u> </u>
Investments:		
Securities held to maturity, at amortized cost	\$ 3,586,491	3,524,724
Securities available for sale, at fair value	1,736,155	1,744,727
Mortgage loans, net of allowances for possible losses	106,708	110,639
Policy loans	86,276	86,385

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Derivatives	56,778	39,405
Other long-term investments	<u>26,830</u>	<u>30,013</u>
Total investments	5,599,238	5,535,893
Cash and short-term investments	16,812	31,355
Deferred policy acquisition costs	636,553	620,129
Deferred sales inducements	85,769	80,450
Accrued investment income	62,871	61,283
Federal income tax receivable	-	2,107
Other assets	<u>41,949</u>	<u>37,791</u>
	<u>\$ 6,443,192</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)	
	March 31, 2006	December 31, 2005
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	\$ 139,415	139,309
Universal life and annuity contracts	5,221,352	5,176,610
Other policyholder liabilities	108,892	100,557
Federal income tax liability:		
Current	8,229	-
Deferred	27,535	37,735
Other liabilities	<u>61,708</u>	<u>40,789</u>
Total liabilities	<u>5,567,131</u>	<u>5,495,000</u>

COMMITMENTS AND CONTINGENCIES (Note 5 and 7)

STOCKHOLDERS' EQUITY:

Common stock:

Class A - \$1 par value; 7,500,000 shares authorized; 3,425,923 issued and 3,420,544 outstanding in 2006 and 3,412,839 issued and outstanding in 2005	3,426	3,413
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2006 and 2005	200	200
Additional paid-in capital	38,414	37,923
Accumulated other comprehensive income (loss)	(722)	10,564
Retained earnings	835,953	821,908
Less treasury stock at cost; 5,379 shares in 2006	(1,210)	-
	<u>876,061</u>	<u>874,008</u>
Total stockholders' equity	<u>876,061</u>	<u>874,008</u>
	<u>\$ 6,443,192</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 March 31, 2006 and 2005

(Unaudited)

(In thousands, except per share amounts)

	<u>2006</u>	<u>2005</u>
Premiums and other revenue:		
Traditional life and annuity premiums	\$ 3,991	3,481
Universal life and annuity contract revenues	26,956	23,948
Net investment income	98,687	62,746
Other income	5,198	2,233
Realized gains on investments	1,423	968
	<u>136,255</u>	<u>93,376</u>
Total premiums and other revenue	<u>136,255</u>	<u>93,376</u>

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Benefits and expenses:

Life and other policy benefits	11,442	11,228
Amortization of deferred acquisition costs	22,298	19,074
Universal life and annuity contract interest	56,048	27,355
Other operating expenses	25,374	11,043
	<u>115,162</u>	<u>68,700</u>
Total benefits and expenses		
Earnings before Federal income taxes	21,093	24,676
	<u>21,093</u>	<u>24,676</u>
Provision for Federal income taxes:		
Current	11,487	6,292
Deferred	(4,439)	2,182
	<u>7,048</u>	<u>8,474</u>
Total Federal income taxes		
Net earnings	\$ 14,045	16,202
	<u>\$ 14,045</u>	<u>16,202</u>
Basic Earnings Per Share	\$ 3.88	4.51
	<u>\$ 3.88</u>	<u>4.51</u>
Diluted Earnings Per Share	\$ 3.84	4.47
	<u>\$ 3.84</u>	<u>4.47</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 March 31, 2006 and 2005

(Unaudited)

(In thousands)

	2006	2005
	<u>2006</u>	<u>2005</u>
Net earnings	\$ 14,045	16,202
	<u>\$ 14,045</u>	<u>16,202</u>
Other comprehensive income (loss), net of effects of deferred policy acquisition costs and taxes:		
Unrealized losses on securities:		
Unrealized holding losses arising during period	(10,355)	(9,818)
Reclassification adjustment for gains included in net earnings	(892)	(262)

Amortization of net unrealized gains related to transferred securities	(104)	(3)
Net unrealized losses on securities	(11,351)	(10,083)
Foreign currency translation adjustments	65	169
Other comprehensive loss	(11,286)	(9,914)
Comprehensive income	\$ 2,759	6,288

See accompanying notes to condensed consolidated financial statements.

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

For the Three Months Ended March 31, 2006 and 2005

(Unaudited)

(In thousands)

	2006	2005
Common stock:		
Balance at beginning of year	\$ 3,613	3,584
Shares exercised under stock option plan	13	8
Balance at end of period	3,626	3,592
Additional paid-in capital:		
Balance at beginning of year	37,923	33,834
Shares exercised under stock option plan, net of tax benefits	491	750
Stock option expense	-	255
Balance at end of period	38,414	34,839
Accumulated other comprehensive income:		
Unrealized gains on securities:		
Balance at beginning of year	10,401	25,032
Change in unrealized gains during period	(11,351)	(10,083)
Balance at end of period	(950)	14,949
Foreign currency translation adjustments:		

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Balance at beginning of year	3,300	3,170
Change in translation adjustments during period	<u>65</u>	<u>169</u>
Balance at end of period	<u>3,365</u>	<u>3,339</u>
Minimum pension liability adjustment:		
Balance at beginning of year	(3,137)	(2,783)
Change in minimum pension liability adjustment during period	<u>-</u>	<u>-</u>
Balance at end of period	<u>(3,137)</u>	<u>(2,783)</u>
Accumulated other comprehensive income (loss) at end of period	<u>(722)</u>	<u>15,505</u>
Retained earnings:		
Balance at beginning of year	821,908	745,835
Net earnings	<u>14,045</u>	<u>16,202</u>
Balance at end of period	<u>835,953</u>	<u>762,037</u>
Treasury shares:		
Balance at beginning of year	-	-
Repurchases of common stock during period	<u>(1,210)</u>	<u>-</u>
Balance at end of period	<u>(1,210)</u>	<u>-</u>
Total stockholders' equity	<u>\$ 876,061</u>	<u>815,973</u>

See accompanying notes to condensed consolidated financial statements.

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

For the Three Months Ended March 31, 2006 and 2005

(Unaudited)

(In thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net earnings	\$ 14,045	16,202

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Adjustments to reconcile net earnings to net cash		
from operating activities:		
Universal life and annuity contract interest	56,048	27,355
Surrender charges and other policy revenues	(8,760)	(6,917)
Realized gains on investments	(1,423)	(968)
Accrual and amortization of investment income	(1,564)	(529)
Depreciation and amortization	385	416
(Increase) decrease in value of derivatives	(16,014)	9,938
Increase in deferred policy acquisition and sales	(296)	(6,543)
inducement costs		
Increase in accrued investment income	(1,588)	(2,078)
Increase in other assets	(4,798)	(2,163)
Increase (decrease) in liabilities for future policy	106	(931)
benefits		
Increase in other policyholder liabilities	8,335	7,699
Increase in Federal income tax liability	6,359	3,458
Increase (decrease) in other liabilities	15,570	(105)
Other	769	429
	<u>67,174</u>	<u>45,263</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sales of:		
Securities held to maturity	-	-
Securities available for sale	9,409	2,285
Other investments	1,865	-
Proceeds from maturities and redemptions of:		
Securities held to maturity	24,736	110,594
Securities available for sale	18,127	5,093
Derivatives	6,849	5,835
Purchases of:		
Securities held to maturity	(85,278)	(179,361)
Securities available for sale	(48,922)	(64,422)
Other investments	(6,502)	(7,101)
Principal payments on mortgage loans	5,773	9,107
Cost of mortgage loans acquired	(1,733)	(1,291)
Decrease in policy loans	109	890
Other	(461)	(254)
	<u>(76,028)</u>	<u>(118,625)</u>
Net cash used in investing activities		

(Continued on next page)

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

For the Three Months Ended March 31, 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	\$ 127,625	158,325
Return of account balances on universal life and annuity contracts	(132,621)	(111,060)
Issuance of common stock under stock option plan	295	420
Repurchases of common stock	<u>(1,210)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(5,911)</u>	<u>47,685</u>
Effect of foreign exchange	<u>222</u>	<u>(16)</u>
Net decrease in cash and short-term investments	(14,543)	(25,693)
Cash and short-term investments at beginning of year	<u>31,355</u>	<u>50,194</u>
Cash and short-term investments at end of period	<u>\$ 16,812</u>	<u>24,501</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the quarter for:

Interest	\$ 10	10
Income taxes	-	5,100

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 March 31, 2006, and the results of its operations and its cash flows for the three months ended March 31, 2006 and 2005. The results of operations for the three months ended March 31, 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. FAS 115-1 and FAS 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. FAS 115-1 and FAS 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 adoption of SOP 05-1 is not expected to have a material impact on the consolidated financials statements 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 three months ended March 31, 2006 and 2005, as it generally follows a policy of retaining any earnings in order to finance the development of business and to meet regulatory requirements for capital.

(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 complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The following summarizes the components of net periodic benefit cost.

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Service cost	\$ 171	148

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Interest cost	244	231
Expected return on plan assets	(228)	(209)
Amortization of prior service cost	1	1
Amortization of net loss	83	71
	<u> </u>	<u> </u>
Net periodic benefit cost	\$ 271	242
	<u> </u>	<u> </u>

As previously disclosed in its financial statements for the year ended December 31, 2005, the Company expects to contribute \$1.0 million to the plan in 2006. No contributions have been made as of March 31, 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.

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

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

	Three Months Ended March 31,	
	2006	2005
	<u> </u>	<u> </u>
	(In thousands)	
Service cost	\$ 324	105
Interest cost	73	45
Amortization of prior service cost	162	73
Amortization of net loss	-	1
	<u> </u>	<u> </u>
Net periodic benefit cost	\$ 559	224
	<u> </u>	<u> </u>

As previously disclosed in its financial statements for the year ended December 31, 2005, the Company expects to contribute \$1.0 million to the plan in 2006. No contributions have been made as of March 31, 2006.

(B) Defined Benefit Postretirement Plans

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

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Interest cost	\$ 25	24
Amortization of prior service cost	26	26
Net periodic benefit cost	<u>\$ 51</u>	<u>50</u>

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

(6) SEGMENT AND OTHER OPERATING INFORMATION

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 March 31, 2006 and 2005 is provided below.

Selected Segment Information

:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				

March 31, 2006:

Selected Balance Sheet Items:

Deferred policy acquisition

costs and sales inducements	\$ 46,656	170,959	504,707	-	722,322
Total segment assets	372,095	653,254	5,303,082	96,410	6,424,841

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Future policy benefits	310,572	456,038	4,594,157	-	5,360,767
Other policyholder liabilities	11,786	18,357	78,749	-	108,892

Three Months Ended

March 31, 2006:

Condensed Income Statements:

Premiums and contract

revenues	\$ 5,834	19,384	5,729	-	30,947
Net investment income	5,196	7,014	85,998	479	98,687
Other income	8	23	2,707	2,460	5,198

Total revenues	<u>11,038</u>	<u>26,421</u>	<u>94,434</u>	<u>2,939</u>	<u>134,832</u>
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Policy benefits	4,954	5,381	1,107	-	11,442
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Amortization of deferred

acquisition costs	1,401	4,941	15,956	-	22,298
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Universal life and investment

annuity contract interest	2,270	5,941	47,837	-	56,048
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Other operating expenses	5,262	8,118	9,761	2,233	25,374
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Federal income taxes	(949)	680	6,584	235	6,550
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Total expenses	<u>12,938</u>	<u>25,061</u>	<u>81,245</u>	<u>2,468</u>	<u>121,712</u>
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Segment earnings	\$ <u>(1,900)</u>	<u>1,360</u>	<u>13,189</u>	<u>471</u>	<u>13,120</u>
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Domestic
Life
Insurance

International
Life
Insurance

All
Annuities

Others

Totals

(In thousands)

March 31, 2005:

Selected Balance Sheet Items:

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Deferred policy acquisition costs and sales inducements	\$	46,415	149,468	474,806	-	670,689
Total segment assets		361,894	579,268	5,037,413	81,570	6,060,145
Future policy benefits		302,500	411,413	4,382,227	-	5,096,140
Other policyholder liabilities		11,170	11,515	60,251	-	82,936

Three Months Ended
March 31, 2005:

Condensed Income Statements:

Premiums and contract

revenues	\$	6,081	17,037	4,311	-	27,429
Net investment income		4,978	5,338	51,671	759	62,746
Other income		8	14	87	2,124	2,233

Total revenues		<u>11,067</u>	<u>22,389</u>	<u>56,069</u>	<u>2,883</u>	<u>92,408</u>
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Policy benefits		4,660	5,983	585	-	11,228
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Amortization of deferred

acquisition costs		1,218	4,914	12,942	-	19,074
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Universal life and investment

annuity contract interest		2,181	3,612	21,562	-	27,355
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Other operating expenses		2,200	3,329	3,637	1,877	11,043
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Federal income taxes		<u>277</u>	<u>1,562</u>	<u>5,950</u>	<u>346</u>	<u>8,135</u>
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Total expenses		<u>10,536</u>	<u>19,400</u>	<u>44,676</u>	<u>2,223</u>	<u>76,835</u>
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Segment earnings	\$	<u><u>531</u></u>	<u><u>2,989</u></u>	<u><u>11,393</u></u>	<u><u>660</u></u>	<u><u>15,573</u></u>
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Reconciliations of segment information to the Company's condensed consolidated financial statements are provided below.

<u>Three Months Ended March 31,</u>	
<u>2006</u>	<u>2005</u>
(In thousands)	

Premiums and Other Revenue

:			
Premiums and contract revenues	\$	30,947	27,429

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Net investment income	98,687	62,746
Other income	5,198	2,233
Realized gains on investments	<u>1,423</u>	<u>968</u>
Total consolidated premiums and other revenue \$	<u>136,255</u>	<u>93,376</u>

Three Months Ended March 31,

<u>2006</u>	<u>2005</u>
-------------	-------------

(In thousands)

Federal Income Taxes

:		
Total segment Federal income taxes	\$ 6,550	8,135
Taxes on realized gains on investments	<u>498</u>	<u>339</u>
Total consolidated Federal income taxes	<u>\$ 7,048</u>	<u>8,474</u>

Three Months Ended March 31,

<u>2006</u>	<u>2005</u>
-------------	-------------

(In thousands)

Net Earnings

:		
Total segment earnings	\$ 13,120	15,573
Realized gains on investments, net of taxes	<u>925</u>	<u>629</u>
Total consolidated net earnings	<u>\$ 14,045</u>	<u>16,202</u>

March 31,

<u>2006</u>	<u>2005</u>
-------------	-------------

(In thousands)

Assets

:		
Total segment assets	\$ 6,424,841	6,060,145
Other unallocated assets	<u>18,351</u>	<u>16,367</u>
Total consolidated assets	<u>\$ 6,443,192</u>	<u>6,076,512</u>

(7) LEGAL PROCEEDINGS

In the course of an audit of a charitable tax-exempt foundation, the Internal Revenue Service ("IRS") raised an issue under the special provisions of the Internal Revenue Code ("IRC") governing tax-exempt private foundations as to certain interest-bearing loans from the Company to another corporation in which the tax-exempt foundation owns stock. The issue is whether such transactions constitute indirect self-dealing by the foundation, the result of which would be excise taxes on the Company by virtue of its participation in such transactions. By letter to the Company dated August 21, 2003, the IRS proposed an initial excise tax liability in the total amount approximating one million dollars as a result of such transactions. The Company disagrees with the IRS analysis. The Company is contesting the matter and expects to prevail on the merits. On October 14, 2003, in response to the IRS letter, the Company requested that this issue instead be referred to the IRS National Office for technical advice. The IRS audit team agreed and the matter was referred in November of 2003 to the IRS National Office. Such technical advice when issued by the IRS National Office will be in the form of a memorandum analyzing the issue which will be binding on the IRS audit team.

The Company is a defendant in several class action lawsuits, however, no class has been certified to date on any of these suits. Management believes that the Company has good and meritorious defenses and intends to vigorously defend itself against these claims.

The Company is involved or may become involved in various other legal actions, in the normal course of business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from potential, pending, or threatened legal actions, will have a material adverse effect on the financial condition or operating results of the Company.

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

FORWARD-LOOKING STATEMENTS

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

OVERVIEW

Insurance Operations - Domestic

The Company is currently licensed to do business in all states except for New York. Products marketed are annuities, universal life insurance, equity-indexed universal life and traditional life insurance, which include both term and whole life products. The majority of domestic sales are the Company's annuities, which include single and flexible premium deferred annuities, single premium immediate annuities, and equity-indexed annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At March 31, 2006, the Company maintained approximately 123,400 annuity policies in force.

National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company currently has approximately 10,800 independent agents contracted. Roughly 17% of these contracted agents have submitted policy applications to the Company in the past twelve months.

Insurance Operations - International

The Company's international operations focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, Eastern Europe and the Pacific Rim. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At March 31, 2006, the Company had approximately 65,900 international life insurance policies in force representing approximately \$12.4 billion in face amount of coverage.

International applications are submitted by independent contractor broker-agents. The Company has approximately 3,700 independent international brokers currently contracted, 46% of which have submitted policy applications to the Company in the past twelve months.

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

SALES

Life Insurance

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

Three Months Ended March 31,

	<u>2006</u>	<u>2005</u>
	(In thousands)	
International:		
Universal life	\$ 1,906	1,262
Traditional life	1,219	748
Equity-indexed life	4,135	3,622
	<u>7,260</u>	<u>5,632</u>

Domestic: