

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)

	(Unaudited)	
	March 31,	December 31,
LIABILITIES AND STOCKHOLDERS' EQUITY	<u>2006</u>	<u>2005</u>
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)