

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
	\$ 6,601,681	6,369,008

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
	2006	2005
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	5,683,665	5,495,000

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>288,032</u>	<u>239,880</u>
Earnings before Federal income taxes	78,746	91,520
	<u>78,746</u>	<u>91,520</u>
Provision (benefit) for Federal income taxes:		
Current	28,987	27,041
Deferred	(2,585)	4,010
	<u>(2,585)</u>	<u>4,010</u>
Total Federal income taxes	26,402	31,051
	<u>26,402</u>	<u>31,051</u>
Net earnings	\$ 52,344	60,469
	<u>\$ 52,344</u>	<u>60,469</u>
Basic Earnings Per Share	\$ 14.46	16.80
	<u>\$ 14.46</u>	<u>16.80</u>
Diluted Earnings Per Share	\$ 14.32	16.64
	<u>\$ 14.32</u>	<u>16.64</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>2006</u>	<u>2005</u>
Net earnings	\$ 16,072	20,169
	<u>\$ 16,072</u>	<u>20,169</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>6</u>	<u>219</u>
Net unrealized gains (losses) on securities	15,830	(11,434)
Foreign currency translation adjustments	(317)	150
	<u>(317)</u>	<u>150</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>