NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q/A
May 17, 2006

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

FORM 10-Q/A
AMENDMENT NO. 1

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

For the Quarterly Period Ended March 31, 2006

o 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	84-0467208
(State of Incorporation)	(I.R.S. Employer Identification Number)
850 EAST ANDERSON LANE AUSTIN, TEXAS 78752-1602	(512) 836-1010
(Address of Principal Executive Offices)	(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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

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

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.

The purpose of this amendment to the Quarterly Report on Form 10-Q of National Western Life Insurance Company for the first quarter ended March 31, 2006 is to update the disclosures under Part I, Item 4. Controls and Procedures. 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, except for the matters discussed in Part I, Item 4, and continues to reflect circumstances as of the date of the original filing.

Explanatory Note

The purpose of this Amendment No. 1 to the Quarterly Report on Form 10-Q of National Western Life Insurance Company for the first quarter ended March 31, 2006 is to update the disclosures under Part I, Item 4. Controls and Procedures. 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, except for the matters discussed in Part I, Item 4, and continues to reflect circumstances as of the date of the original filing.

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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) March 31, 2006	December 31, 2005
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
Derivatives		56,778	39,405
Other long-term investments		26,830	30,013
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		41,949	37,791
	$	6,443,192	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) 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		61,708	40,789
Total liabilities		5,567,131	5,495,000
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)	-
Total stockholders' equity		876,061	874,008
	$	6,443,192	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 STATEMENTS OF EARNINGS
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)
(In thousands, except per share amounts)

		2006	2005
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
Total premiums and other revenue		136,255	93,376
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
Total benefits and expenses		115,162	68,700
Earnings before Federal income taxes		21,093	24,676
Provision for Federal income taxes:			
Current		11,487	6,292
Deferred		(4,439)	2,182
Total Federal income taxes		7,048	8,474
Net earnings	$	14,045	16,202
Basic Earnings Per Share	$	3.88	4.51
Diluted Earnings Per Share	$	3.84	4.47

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

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

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)

		2006	2005
Cash flows from operating activities:			
Net earnings	$	14,045	16,202
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 inducement costs		(296)	(6,543)
Increase in accrued investment income		(1,588)	(2,078)
Increase in other assets		(4,798)	(2,163)
Increase (decrease) in liabilities for future policy benefits		106	(931)
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
Net cash provided by operating activities		67,174	45,263
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)
Net cash used in investing activities	(76,028)	(118,625)

(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)

	2006	2005
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	(1,210)	-
Net cash provided (used) by financing activities	(5,911)	47,685
Effect of foreign exchange	222	(16)
Net decrease in cash and short-term investments	(14,543)	(25,693)
Cash and short-term investments at beginning of year	31,355	50,194
Cash and short-term investments at end of period	$ 16,812	24,501

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	2006	2005
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
Interest cost	244	231
Expected return on plan assets	(228)	(209)
Amortization of prior service cost	1	1
Amortization of net loss	83	71
Net periodic benefit cost	$ 271	242

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

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

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	International

		Life Insurance	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
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		11,038	26,421	94,434	2,939	134,832
Policy benefits		4,954	5,381	1,107	-	11,442
Amortization of deferred						
acquisition costs		1,401	4,941	15,956	-	22,298
Universal life and investment						
annuity contract interest		2,270	5,941	47,837	-	56,048
Other operating expenses		5,262	8,118	9,761	2,233	25,374
Federal income taxes		(949)	680	6,584	235	6,550
Total expenses		12,938	25,061	81,245	2,468	121,712
Segment earnings	$	(1,900)	1,360	13,189	471	13,120

		Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
				(In thousands)		
March 31, 2005:						
Selected Balance Sheet Items:						
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		11,067	22,389	56,069	2,883	92,408
Policy benefits		4,660	5,983	585	-	11,228
Amortization of deferred						
acquisition costs		1,218	4,914	12,942	-	19,074
Universal life and investment						
annuity contract interest		2,181	3,612	21,562	-	27,355
Other operating expenses		2,200	3,329	3,637	1,877	11,043
Federal income taxes		277	1,562	5,950	346	8,135
Total expenses		10,536	19,400	44,676	2,223	76,835
Segment earnings	$	531	2,989	11,393	660	15,573

Reconciliations of segment information to the Company's condensed consolidated financial statements are provided below.

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Premiums and Other Revenue:		
Premiums and contract revenues	$ 30,947	27,429
Net investment income	98,687	62,746
Other income	5,198	2,233
Realized gains on investments	1,423	968
Total consolidated premiums and other revenue	$ 136,255	93,376

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Federal Income Taxes:		
Total segment Federal income taxes	$ 6,550	8,135
Taxes on realized gains on investments	498	339
Total consolidated Federal income taxes	$ 7,048	8,474

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Net Earnings:		
Total segment earnings	$ 13,120	15,573
Realized gains on investments, net of taxes	925	629
Total consolidated net earnings	$ 14,045	16,202

	March 31,	
	2006	2005

	(In thousands)		
Assets			
:			
Total segment assets	$	6,424,841	6,060,145
Other unallocated assets		18,351	16,367
Total consolidated assets	$	6,443,192	6,076,512

(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,	
	2006	2005
	(In thousands)	
International:		
Universal life	$ 1,906	1,262
Traditional life	1,219	748
Equity-indexed life	4,135	3,622
	7,260	5,632
Domestic:		
Universal life	695	753
Traditional life	64	89
Equity-indexed life	408	-
	1,167	842
Totals	$ 8,427	6,474

Life insurance sales as measured by annualized first year premiums increased 30% in the first quarter of 2006 as compared to the first quarter of 2005. Both of the Company's life lines of business, international and domestic, posted increases over the comparable results in the first quarter of 2005 with international sales up 29% and domestic sales 39% greater.

The Company's international life business consists of applications submitted from residents in various regions outside of the United States, the volume of which typically varies based upon changes in the socioeconomic climates of these regions. Historically, the Company has experienced a simultaneous combination of rising and declining sales in various countries; however, the appeal of the Company's dollar-denominated life insurance products overcomes many of the local and national difficulties. Applications submitted from residents of Latin America and the Pacific Rim perennially have comprised the majority of the Company's international life insurance sales. Over the past few years, effort has been directed toward the sale of a traditional endowment form of life insurance product for residents of Eastern European and the Commonwealth of Independent States (former Soviet Union). More recently, the Company's universal life product offerings have been made available to residents of these countries. While business is considered to still be in a developmental phase, sales from these countries have gradually become a larger percentage of overall international sales as shown below.

Three Months Ended March 31,

	2006	2005
Percentage of International Sales:		
Latin America	70.4 %	85.1 %
Pacific Rim	14.6	10.5
Eastern Europe	15.0	4.4
Totals	100.0 %	100.0 %

Year-to-date, the Company has recorded sales to residents outside of the United States in over thirty different countries with Brazil (30%), Taiwan (14%), and Venezuela (8%) making up the largest markets.

Domestic operations have generally focused more heavily on annuity sales than on life insurance sales. The Company spent the greater part of 2003 and 2004 revamping its domestic life operations by changing the way it contracts distribution for life business, eliminating products and distribution that have not contributed significantly to earnings, and creating new and competitive products. A single premium universal life ("SPUL") product was launched at the end of 2003 beginning a diversification of the Company's product portfolio away from smaller dollar face amount policies. The Company released its first equity-indexed universal life ("EIUL") product for its domestic markets at the end of the third quarter of 2005 and began receiving applications. This product accounted for 35% of domestic life insurance sales in the first quarter of 2006 and management anticipates this share to grow throughout the remainder of 2006. With the introduction of the EIUL and SPUL products and the discontinued marketing of smaller premium and volume life insurance policies, the Company has seen an increase in the average amount of per policy coverage purchased in its domestic markets as shown in the following table:

	Average New Policy Face Amount	
	Domestic	International
Year ended December 31, 2002	$ 68,100	222,000
Year ended December 31, 2003	76,100	219,600
Year ended December 31, 2004	101,700	234,500
Year ended December 31, 2005	137,900	245,900
Quarter ended March 31, 2006	222,000	246,700

The international life products historically have consisted of larger average face amounts of coverage per policy due to the higher net worth of the individuals purchasing these products.

The table below sets forth information regarding the Company's life insurance in force for each date presented.

	Insurance In Force as of March 31,	
	2006	2005

	($ in thousands)		
Universal life:			
Number of policies		78,920	82,400
Face amounts	$	8,077,810	8,247,020
Traditional life:			
Number of policies		54,490	56,700
Face amounts	$	1,736,000	1,668,470
Equity-indexed life:			
Number of policies		16,520	12,350
Face amounts	$	3,411,650	2,491,810
Rider face amounts	$	1,603,430	1,447,720
Total life insurance:			
Number of policies		149,930	151,450
Face amounts	$	14,828,890	13,855,020

While the total number of policies in force declined slightly year over year, the face amount of insurance coverage in force increased by approximately $970 million. This reflects the Company's business mix weighted more heavily toward international life sales and a change in emphasis domestically toward larger policies. The domestic life insurance in force is comprised substantially of discontinued policies having lower face amounts of coverage. These policies are lapsing at a rate faster than the larger policy face amounts currently written are being added to the block of business.

Annuities

The following table sets forth information regarding the Company's annuity sales activity as measured by single and annualized first year premiums. Similar to life insurance sales, these figures are considered a non-GAAP financial measure but are shown in accordance with industry practice and depict the Company's sales productivity.

		Three Months Ended March 31,	
		2006	2005
		(In thousands)	
Equity-indexed annuities	$	59,522	76,175
Other deferred annuities		46,693	64,407
Immediate annuities		4,079	7,666
Total	$	110,294	148,248

Annuity sales for the first three months of 2006 were 26% lower than the comparable period in 2005 continuing a trend that began in the first quarter of 2004. Annuity sales in the first quarter of 2004 represented the tail end of the increase in fixed annuity sales that began in 2003 when the Company achieved nearly $1.2 billion in sales. Annuity sales began trending lower due to a combination of declining interest rates, investors returning to alternative investment vehicles and the Company managing its targeted levels of risk and statutory capital and surplus. During 2005, the interest rate levels experienced an infrequent occurrence where the yield curve was inverted, that is, longer term interest rate levels were below shorter term interest rate levels. In such an environment, consumers opt for short term investment vehicles such as bank certificates of deposits rather than longer term choices which include fixed rate annuities.

The Company's mix of annuity sales has shifted the past few years. With a stronger performance in the equity market, sales of equity-indexed annuity products became more prevalent beginning in 2004 and have continued thus far in 2006. Sales of equity-indexed products have consistently accounted for more than one-half of all annuity sales and were 54% in the first quarter of 2006. Contributing to the increase in sales of these products has been the Company's introduction of a new series of equity-indexed annuity products featuring a different indexing mechanism (monthly cap) to complement the existing equity-indexed annuity products which utilize a monthly average annual reset feature. For all equity-indexed products, the Company purchases over the counter options to fully hedge the equity return feature. The options are purchased concurrent with the issuance of the annuity contracts in order to minimize any form of timing risk. All of the index return during the indexing period (if the underlying index increases) is credited to the contract holders electing the equity feature at the beginning of the contract year. The Company does not deliberately mismatch or under hedge for the equity feature of these products.

The sizable increase in annuity sales volume the past several years has required a greater level of asset/liability analysis. The Company monitors its asset/liability matching within the self-constraints of desired capital levels. Despite the amounts of new business, the company's capital level remains substantially above industry averages and regulator targets.

The following table sets forth information regarding annuities in force for each date presented.

	Annuities In Force as of March 31,		
		2006	2005
		($ in thousands)	
Equity-indexed annuities			
Number of policies		27,730	24,400
GAAP annuity reserves	$	1,624,965	1,409,160
Other deferred annuities			
Number of policies		83,250	86,130
GAAP annuity reserves	$	2,719,428	2,729,980
Immediate annuities			
Number of policies		12,450	12,380
GAAP annuity reserves	$	246,786	240,080
Total annuities			
Number of policies		123,430	122,910
GAAP annuity reserves	$	4,591,179	4,379,220

Critical Accounting Estimates

Accounting policies discussed below are those considered critical to an understanding of the Company's financial statements.

Impairment of Investment Securities.

The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the financial conditions and near-term prospects of the issuer, (c) whether the debtor is current on contractually obligated principal and interest payments, and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous estimate, then an other-than-temporary impairment charge is recognized. When a security is deemed to be impaired a charge is recorded as net realized losses equal to the difference between the fair value and amortized cost basis of the security. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. Under U.S. generally accepted accounting principles, the Company is not permitted to increase the basis of impaired securities for subsequent recoveries in value.

Deferred Policy Acquisition Costs ("DAC").

The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are primarily associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company regularly evaluates to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as "unlocking"), the Company would record a charge or credit to bring its DAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

DAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DAC balance and if the DAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount.

Deferred Sales Inducements.

Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability.

Future Policy Benefits.

Because of the long-term nature of insurance contracts, the Company is liable for policy benefit payments many years into the future. The liability for future policy benefits represents estimates of the present value of the Company's expected benefit payments, net of the related present value of future net premium collections. For traditional life insurance contracts, this is determined by standard actuarial procedures, using assumptions as to mortality (life expectancy), morbidity (health expectancy), persistency, and interest rates, which are based on the Company's experience with similar products. The assumptions used are those considered to be appropriate at the time the policies are issued. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. For universal life and annuity products, the Company's liability is the amount of the contract's account balance. Account balances are also subject to minimum liability calculations as a result of minimum guaranteed interest rates in the policies. While management and Company actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company's ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts.

Revenue Recognition.

Premium income for the Company's traditional life insurance contracts is generally recognized as the premium becomes due from policyholders. For annuity and universal life contracts, the amounts collected from policyholders are considered deposits and are not included in revenue. For these contracts, fee income consists of policy charges for policy administration, cost of insurance charges and surrender charges assessed against policyholders' account balances which are recognized in the period the services are provided.

Investment activities of the Company are integral to its insurance operations. Since life insurance benefits may not be paid until many years into the future, the accumulation of cash flows from premium receipts are invested with income reported as revenue when earned. Anticipated yields on investments are reflected in premium rates, contract liabilities, and other product contract features. These anticipated yields are implied in the interest required on the Company's net insurance liabilities (future policy benefits less deferred acquisition costs) and contractual interest obligations in its insurance and annuity products. The Company benefits to the extent actual net investment income exceeds the required interest on net insurance liabilities and manages the rates it credits on its products to maintain the targeted excess or "spread" of investment earnings over interest credited. The Company will continue to be required to provide for future contractual obligations in the event of a decline in investment yield. For more information concerning revenue recognition, investment accounting, and interest sensitivity, please refer to Note 1, Summary of Significant Accounting Policies, and Note 3, Investments, in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and the discussions under Investments in Item 3 of this report.

Pension Plans and Other Postretirement Benefits.

The Company sponsors a qualified defined benefit pension plan covering substantially all employees and three nonqualified defined benefit plans covering certain senior officers. In addition, the Company also has postretirement healthcare benefits for certain senior officers. In accordance with prescribed accounting standards, the Company annually reviews plan asssumptions.

The Company annually reviews its pension benefit plan assumptions which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on long-term investment policy of the plans and the various classes of the invested funds, based on the input of the plan's investment advisors and consulting actuary and the plan's historic rate of return. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. These assumptions involve uncertainties and judgment and therefore actual performance may not be reflective of the assumptions.

Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, healthcare trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement healthcare benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Healthcare trend rates involve assumptions about the annual rate(s) of change in the cost of healthcare benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of healthcare inflation, changes in utilization, technological advances and changes in health status of the participants. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above but nonetheless important to an understanding of the financial statements, are described in the Company's annual report on Form 10-K for the year ended December 31, 2005.

RESULTS OF OPERATIONS

The Company's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivatives and realized investment gains and losses from operating revenues and earnings. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates derivatives and realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business. Therefore, in the following sections discussing consolidated operations and segment operations appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the consolidated financial statements.

Consolidated Operations

Revenues.

The following details Company revenues.

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Traditional life and annuity premiums	$ 3,991	3,481
Universal life and annuity contract revenues	26,956	23,948
Net investment income (excluding derivatives)	83,511	76,668

Other income	5,198	2,233
Operating revenues	119,656	106,330
Derivative gains (losses)	15,176	(13,922)
Realized gains on investments	1,423	968
Total revenues	$ 136,255	93,376

Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. These are product lines that the Company has not marketed as aggressively as interest sensitive products, particularly in its international life insurance operations.

Revenues for universal life and annuity contract revenues consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances. Product sales have remained consistent from 2005 to 2006 with the block of business in force, particularly international universal life products, growing steadily. This contributes to higher revenues in the form of cost of insurance charges which were $16.5 million in the first quarter of 2006 compared to $15.5 million for the quarter ended March 31, 2005. Surrender charges assessed against policyholder account balances upon withdrawal increased to $7.7 million in the first quarter of 2006 versus $6.1 million in 2005.

To ensure the Company will be able to pay future commitments to policyholders and provide a financial return, the funds received as premium payments and deposits are invested in high quality investments, primarily debt securities. The income from these investments is closely monitored by the Company due to its significant impact on the business.

A detail of net investment income is provided below.

	Three Months Ended March 31,		% of Total	
	2006	2005	2006	2005
	(In thousands)			
Gross investment income:				
Debt securities	$ 76,125	71,643	90.1%	92.6%
Mortgage loans	2,638	2,642	3.1	3.4
Policy loans	1,580	1,588	1.9	2.0
Other invested assets	4,184	1,513	4.9	2.0
Total investment income	84,527	77,386	100.0%	100.0%
Investment expenses	1,016	718		
Net investment income (excluding derivatives)	83,511	76,668		
Derivative gains (losses)	15,176	(13,922)		
Net investment income	$ 98,687	62,746		

Income from other invested assets for the three months ended March 31, 2006 includes a profit participation interest of $1.6 million and residual profits of $1.1 million from the sale of equity loans during the quarter. Derivative gains and losses are recorded as a component of investment income but may fluctuate substantially from period to period based on the performance of the S&P 500® Composite Stock Price Index ("S&P 500 Index®"). The quarter ended March 31, 2006 reflects gains of $15.2 million compared to losses of $13.9 million for the same three months ended in 2005. (See the discussion that follows this section relating to index options and derivatives). Despite the drop in interest rate levels over the past several years, the Company still generated higher overall net investment earnings, excluding derivatives, due to higher levels of invested assets.

Net investment income performance is summarized as follows:

	Three Months Ended March 31,	
	2006	2005
	(In thousands except percentages)	
Excluding derivatives:		
Net investment income	$ 83,511	76,668
Average invested assets, at amortized cost	$ 5,431,222	5,084,414
Annual yield on average invested assets	6.15%	6.03%
Including derivatives:		
Net investment income	$ 98,687	62,746
Average invested assets, at amortized cost	$ 5,448,962	5,150,114
Annual yield on average invested assets	7.24%	4.87%

The yield on average invested assets has increased from 6.03% in 2005 to 6.15% in 2006, excluding derivatives. The yield increase in 2006 compared to 2005 is due to the additional income recognized from the other invested assets of $2.7 million as previously described. Excluding these other invested asset transactions would result in a yield lower than the yield reported in 2005, due to the Company obtaining lower returns on newly invested funds. Net investment income performance is analyzed excluding the derivative income which is a common practice in the insurance industry in order to assess underlying profitability and results from ongoing operations.

Other income primarily pertains to the Company's operations involving a nursing home. Revenues associated with this operation were $2.5 million and $2.1 million for the three months ended March 31, 2006 and 2005, respectively. Included in other income for the three months ended March 31, 2006 is $2.6 million resulting from partial lawsuit settlements in relation to the Company's litigation against Enron and related parties.

Index options are derivative financial instruments used to fully hedge the equity return component of the Company's equity-indexed products. Index options are intended to act as hedges to match closely the returns on the S&P 500 Index®. With an increase or decline in this index, the index option values likewise increase or decline. Any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income. However, increases or decreases in income from these options are substantially offset by corresponding increases or decreases in amounts credited to equity-indexed policyholders as contract interest.

Derivative components included in net investment income and the corresponding contract interest amounts are detailed below for each date presented.

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Derivatives:		
Unrealized gains (losses)	$ 16,014	(9,938)
Realized losses	(838)	(3,984)
Total gains (losses) included in net investment income	$ 15,176	(13,922)
Total contract interest	$ 56,048	27,355

Realized investment gains of $1.4 million and $0.9 million were recorded in the first quarters of 2006 and 2005, respectively. The gains in 2006 are primarily due to sales of collaterialized bond obligation holdings from the debt securities portfolio which had previously been impaired. The net gains recorded during 2005 reflected a release of a prior year impairment of a mortgage loan sold for a gain of $0.4 million. In addition, realized gains on sales of bonds for $0.7 million during the year were reduced by a realized loss from an additional impairment on one bond issuer of $0.2 million due to a reduction in market value as of the reporting date.

Benefits and Expenses.

The following details benefits and expenses.

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
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
Totals	$ 115,162	68,700

Death claims decreased from $9.8 million during the first quarter of 2005 to $8.9 million for the quarter ended March 31, 2006. While death claim amounts are subject to variation from period to period, the Company's mortality experience has generally been consistent with its product pricing assumptions.

Life insurance companies are required to defer certain expenses associated with acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses and sales inducements. The Company defers sales inducements in the form of first year interest bonuses on annuity and universal life products that are directly related to the production of new business. These charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. Recognition of these deferred policy acquisition costs in the financial statements occurs over future periods in relation to the emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review these assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profits pattern is to be "unlocked" and reset based upon the actual experience. While the Company is required to evaluate its emergence of profits continually, management believes that the current amortization patterns of deferred policy acquisition costs are reflective of actual experience.

As a result of a true-up of assumptions in the current period, amortization of deferred policy acquisition costs increased to $22.3 million in the first quarter of 2006 compared to $19.1 million reported in 2005. The increase in international life sales has caused an increase in life insurance in force since 2001 from $10.0 billion to $14.8 billion at March 31, 2006. In addition, annuity sales activity has increased the number of active annuity contracts from approximately 103,000 at March 31, 2003, to 123,000 at March 31, 2006. Deferred acquisition costs associated with this growth in business are being amortized currently in conjunction with the emergence of profits from these blocks of policies.

The Company closely monitors its credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long-term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors as described above. The difference between yields earned over policy credited rates is often referred to as the "interest spread". Raising policy credited rates can typically have more of an immediate impact than higher market rates on the Company's investment portfolio yield, making it more difficult to maintain the current interest spread.

The Company's approximated average credited rates are as follows:

	March 31,		March 31,	
	2006	2005	2006	2005
	(Excluding derivative products)		(Including derivative products)	
Annuity	3.84%	3.61%	4.30%	1.98%
Interest sensitive life	4.32%	4.57%	5.32%	4.04%

Contract interest also includes the performance of the equity-index component of the Company's derivative products. As previously noted, the recent market performance of these equity-index features impacts contract interest expenses while also impacting the Company's investment income given the hedge nature of the options purchased for these products.

Other operating expenses consist of general administrative expenses, licenses and fees, and commissions not subject to deferral. Like revenues from other income, nursing home operation expenses are included in other operating expenses in the amount of $2.2 million and $1.9 million for the first quarters of 2006 and 2005, respectively. In addition, other operating expenses for the first quarter of 2006 includes additional compensation cost of $12.5 million as a result of implementation of liability accounting under SFAS 123(R) for the Company's stock option plan. Implementation of liability accounting resulted in a current charge for option costs related to outstanding vested and unvested options. Prior to this implementation, the plan was accounted for under the equity method, which allowed for compensation cost recognition in the current service period.

Federal Income Taxes.

Federal income taxes on earnings from continuing operations reflect effective tax rates of 33.4% and 34.3% for the first quarter of 2006 and 2005, respectively, which are lower than the expected Federal rate of 35%. The effective tax rate is lower than the Federal rate of 35% primarily due to tax-exempt investment income related to municipal securities and dividends-received deductions on income from stocks.

Segment Operations

Summary of Segment Earnings

A summary of segment earnings (losses) for the quarters ended March 31, 2006 and 2005 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Segment earnings (losses):					
March 31, 2006	$ (1,900)	1,360	13,189	471	13,120
March 31, 2005	$ 531	2,989	11,393	660	15,573

Domestic Life Insurance Operations

A comparative analysis of results of operations for the Company's domestic life insurance segment is detailed below.

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	(In thousands)	
Premiums and other revenue:		
Premiums and contract revenues	$ 5,834	6,081
Net investment income	5,196	4,978
Other income	8	8
Total premiums and other revenue	11,038	11,067
Benefits and expenses:		
Life and other policy benefits	4,954	4,660
Amortization of deferred policy acquisition costs	1,401	1,218

Universal life insurance contract interest	2,270	2,181
Other operating expenses	5,262	2,200
Total benefits and expenses	13,887	10,259
Segment earnings (losses) before Federal income taxes	(2,849)	808
Provision (benefit) for Federal income taxes	(949)	277
Segment earnings (losses)	$ (1,900)	531

Revenues from domestic life insurance operations include life insurance premiums on traditional type products and revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Universal life insurance revenues	$ 4,468	4,587
Traditional life insurance premiums	1,748	1,763
Reinsurance premiums	(382)	(269)
Totals	$ 5,834	6,081