

NATIONAL WESTERN LIFE INSURANCE CO  
Form 10-Q  
May 10, 2011

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 March 31, 2011

- 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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). : Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Small reporting company

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 6, 2011, the number of shares of Registrant's common stock outstanding was: Class A - 3,434,263 and Class B - 200,000.

---

## TABLE OF CONTENTS

	Page
<u>Part I. Financial Information:</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets</u> March 31, 2011 (Unaudited) and December 31, 2010	3
<u>Condensed Consolidated Statements of Earnings</u> For the Three Months Ended March 31, 2011 and 2010 (Unaudited)	5
<u>Condensed Consolidated Statements of Comprehensive Income</u> For the Three Months Ended March 31, 2011 and 2010 (Unaudited)	6
<u>Condensed Consolidated Statements of Stockholders' Equity</u> For the Three Months Ended March 31, 2011 and 2010 (Unaudited)	7
<u>Condensed Consolidated Statements of Cash Flows</u> For the Three Months Ended March 31, 2011 and 2010 (Unaudited)	9
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	11
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	71
<u>Item 4. Controls and Procedures</u>	71
<u>Part II. Other Information:</u>	71
<u>Item 1. Legal Proceedings</u>	71
<u>Item 1A. Risk Factors</u>	71
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	71
<u>Item 6. Exhibits</u>	72
<u>Signatures</u>	73



Table of Contents

## 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, 2011	December 31, 2010
Investments:		
Securities held to maturity, at amortized cost (fair value: \$5,409,535 and \$5,259,332)	\$5,151,130	4,977,516
Securities available for sale, at fair value (amortized cost: \$2,256,986 and \$2,221,579)	2,418,467	2,390,107
Mortgage loans, net of allowance for possible losses (\$4,001 and \$3,962)	142,770	141,247
Policy loans	77,539	78,448
Derivatives, index options	113,992	80,284
Other long-term investments	27,520	29,569
<b>Total Investments</b>	<b>7,931,418</b>	<b>7,697,171</b>
Cash and short-term investments	62,321	80,332
Deferred policy acquisition costs	709,896	691,939
Deferred sales inducements	149,740	143,844
Accrued investment income	87,755	79,720
Federal income tax receivable	-	427
Other assets	88,866	80,515
	<b>\$9,029,996</b>	<b>8,773,948</b>

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) March 31, 2011	December 31, 2010
<b>LIABILITIES:</b>		
Future policy benefits:		
Universal life and annuity contracts	\$7,337,440	7,108,599
Traditional life and annuity contracts	139,058	139,182
Other policyholder liabilities	155,068	151,526
Deferred Federal income tax liability	51,193	57,857
Federal income tax payable	14,734	-
Other liabilities	96,345	97,993
<b>Total liabilities</b>	<b>7,793,838</b>	<b>7,555,157</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 8)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,432,966 and 3,429,241 shares issued and outstanding in 2011 and 2010	3,433	3,429
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2011 and 2010	200	200
Additional paid-in capital	37,762	37,140
Accumulated other comprehensive income	48,938	50,408
Retained earnings	1,145,825	1,127,614
<b>Total stockholders' equity</b>	<b>1,236,158</b>	<b>1,218,791</b>
	<b>\$9,029,996</b>	<b>8,773,948</b>

Note: The condensed consolidated balance sheet at December 31, 2010, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(In thousands, except per share amounts)

	2011	2010
Premiums and other revenues:		
Universal life and annuity contract charges	\$29,832	32,094
Traditional life and annuity premiums	4,022	3,617
Net investment income	133,515	102,850
Other revenues	9,906	6,152
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) losses	-	(248 )
Portion of OTTI losses recognized in other comprehensive income	-	26
Net OTTI losses recognized in earnings	-	(222 )
Other net investment gains (losses)	3,092	(207 )
Total net realized investment gains (losses)	3,092	(429 )
Total revenues	180,367	144,284
Benefits and expenses:		
Life and other policy benefits	12,216	13,287
Amortization of deferred policy acquisition costs	27,489	23,769
Universal life and annuity contract interest	92,149	62,701
Other operating expenses	20,718	17,316
Total benefits and expenses	152,572	117,073
Earnings before Federal income taxes	27,795	27,211
Federal income taxes	9,584	8,803
Net earnings	\$18,211	18,408
Basic Earnings Per Share:		
Class A	\$5.16	5.22
Class B	\$2.58	2.61
Diluted Earnings Per Share:		
Class A	\$5.15	5.20
Class B	\$2.58	2.61

See accompanying notes to condensed consolidated financial statements.





Table of Contents

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

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(In thousands)

	2011	2010
Net earnings	\$18,211	18,408
Other comprehensive income (loss), net of effects of deferred costs and taxes:		
Unrealized gains on securities:		
Net unrealized holding gains arising during period	6	15,692
Net unrealized liquidity gains (losses)	201	(3,313 )
Reclassification adjustment for net amounts included in net earnings	(1,885 )	(141 )
Amortization of net unrealized losses (gains) related to transferred securities	(7 )	7
Net unrealized gains (losses) on securities	(1,685 )	12,245
Foreign currency translation adjustments	(75 )	(153 )
Benefit plans:		
Amortization of net prior service cost and net gain	290	290
Other comprehensive income (loss)	(1,470 )	12,382
Comprehensive income	\$16,741	30,790

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(In thousands)

	2011	2010
Common stock:		
Balance at beginning of period	\$3,629	3,626
Shares exercised under stock option plan	4	-
Balance at end of period	3,633	3,626
Additional paid-in capital:		
Balance at beginning of period	37,140	36,680
Shares exercised under stock option plan	622	-
Balance at end of period	37,762	36,680
Accumulated other comprehensive income:		
Unrealized gains on non-impaired securities:		
Balance at beginning of period	62,499	31,639
Change in unrealized gains during period	(1,886 )	11,871
Balance at end of period	60,613	43,510
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	(2,713 )	(2,751 )
Amortization	217	40
Other-than-temporary impairments, non-credit, net of tax	-	(26 )
Additional credit loss on previously impaired securities	-	45
Change in shadow deferred policy acquisition costs	(16 )	(18 )
Balance at end of period	(2,512 )	(2,710 )
Unrealized losses on impaired available for sale securities:		
Balance at beginning of period	-	(562 )
Recoveries	-	332
Balance at end of period	-	(230 )
Foreign currency translation adjustments:		
Balance at beginning of period	2,585	2,893
Change in translation adjustments during period	(75 )	(153 )
Balance at end of period	2,510	2,740

(Continued on Next Page)

7

---

Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, CONTINUED  
For the Three Months Ended March 31, 2011 and 2010  
(Unaudited)  
(In thousands)

	2011	2010
Benefit plan liability adjustment:		
Balance at beginning of period	(11,963 )	(13,459 )
Amortization of net prior service cost and net gain	290	290
Balance at end of period	(11,673 )	(13,169 )
Accumulated other comprehensive income at end of period	48,938	30,141
Retained earnings:		
Balance at beginning of period	1,127,614	1,055,987
Net earnings	18,211	18,408
Balance at end of period	1,145,825	1,074,395
Total stockholders' equity	\$1,236,158	1,144,842

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(In thousands)

	2011	2010
Cash flows from operating activities:		
Net earnings	\$18,211	18,408
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	92,149	62,701
Surrender charges and other policy revenues	(6,770 )	(9,767 )
Realized (gains) losses on investments	(3,092 )	429
Accrual and amortization of investment income	(509 )	(559 )
Depreciation and amortization	195	(2,173 )
(Increase) decrease in value of index options	(31,849 )	5,788
Increase in deferred policy acquisition and sales inducement costs	(19,730 )	(14,218 )
Increase in accrued investment income	(8,035 )	(4,999 )
Increase in other assets	(7,329 )	(2,792 )
Increase in liabilities for future policy benefits	6,905	2,046
Increase in other policyholder liabilities	3,541	16,407
Increase (decrease) in Federal income tax liability	9,847	(4,657 )
(Decrease) increase in other liabilities	(3,532 )	9,748
Net cash provided by operating activities	50,002	76,362
Cash flows from investing activities:		
Proceeds from sales of:		
Securities available for sale	10,010	13,899
Other investments	1,940	1,172
Proceeds from maturities and redemptions of:		
Securities held to maturity	150,205	217,556
Securities available for sale	29,127	22,591
Index options	10,180	10,167
Purchases of:		
Securities held to maturity	(321,632 )	(393,786 )
Securities available for sale	(71,388 )	(106,699 )
Index options	(12,039 )	(9,388 )
Other investments	(779 )	(524 )
Principal payments on mortgage loans	7,904	9,017
Cost of mortgage loans acquired	(9,432 )	(19,836 )
(Increase) decrease in policy loans	909	(958 )
Other, net	(1 )	-
Net cash used in investing activities	(204,996 )	(256,789 )



Table of Contents

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

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(In thousands)

	2011	2010
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	\$346,146	274,820
Return of account balances on universal life and annuity contracts	(209,714 )	(151,416 )
Issuance of common stock under stock option plan	626	-
Net cash provided by financing activities	137,058	123,404
Effect of foreign exchange	(75 )	(153 )
Net decrease in cash and short-term investments	(18,011 )	(57,176 )
Cash and short-term investments at beginning of period	80,332	108,866
Cash and short-term investments at end of period	\$62,321	51,690

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$10	10
Income taxes	-	13,700
Noncash operating activities:		
Deferral of sales inducements	5,117	3,942

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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 National Western Life Insurance Company and its subsidiaries ("Company") as of March 31, 2011, and the results of its operations and its cash flows for the three months ended March 31, 2011 and 2010. The results of operations for the three months ended March 31, 2011 and 2010 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, 2010 accessible free of charge through the Company's internet site at [www.nationalwesternlife.com](http://www.nationalwesternlife.com) or the Securities and Exchange Commission internet site at [www.sec.gov](http://www.sec.gov). The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements as of that date.

The accompanying condensed consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly-owned subsidiaries: The Westcap Corporation, NWL Investments, Inc., NWL Services, Inc., NWL Financial, Inc., NWLSM, Inc. and Regent Care San Marcos Holdings, LLC. All significant intercorporate transactions and accounts have been eliminated in consolidation.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates in the accompanying condensed consolidated financial statements include (1) liabilities for future policy benefits, (2) valuation of derivative instruments, (3) recoverability and amortization of deferred policy acquisition costs, (4) commitments and contingencies, (5) valuation allowances for deferred tax assets, (6) other-than-temporary impairment losses on debt securities and (7) valuation allowances for mortgage loans and real estate.

The Company is implementing new actuarial reserving systems that enhance its ability to provide better estimates used in establishing future policy liabilities, monitor the deferred acquisition cost asset and the deferred sales asset as well as support other actuarial processes within the Company. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and is expected to be completed in 2011. As the Company applies these new systems to a line of business, current reserving assumptions are reviewed and updated as appropriate. During the three months ended March 31, 2010 a correction was made to a surrender charge assumption for future years on one deferred annuity product line. This change resulted in an unlocking adjustment that increased Deferred Policy Acquisition Costs ("DPAC") amortization expense in the first quarter of 2010 by \$2.7 million. As the amount of the correction was determined to have occurred over the course of multiple previous reported periods, it was concluded that the amount of the correction was immaterial to the financial results reported in any of these periods.

Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current year presentation.



(2) NEW ACCOUNTING PRONOUNCEMENTS

During January 2010, the FASB issued new guidance that requires more robust fair value disclosures about the different classes of assets and liabilities measured at fair value. The adoption of this guidance did not have a significant impact on the consolidated financial position or results of operations.

Table of Contents

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

During July 2010 the FASB issued new guidance that requires additional disclosures related to an entity's financing receivables and the nature of its credit risks related to financing receivables. The effective date is for interim and annual periods ending after December 15, 2010. The adoption of this guidance, effective December 31, 2010, did not have a significant impact on the consolidated financial statements.

During October 2010 the FASB issued new guidance effecting insurance companies that incur costs in the acquisition of new and renewal insurance contracts. The guidance address the diversity in practice regarding the interpretation for which costs relating to the acquisition of new or renewal business qualifies for deferral. The new guidance specifies the acquisition costs which are capitalizable and those which must be expensed. The effective date is for interim and annual periods ending after December 15, 2011. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

During January 2011 the FASB issued new guidance which defers the effective date of disclosures about troubled debt restructurings in Accounting Standards Update No. 2010-20, Receivables (Topic 310). The new anticipated effective date is for interim and annual periods ending after June 15, 2011. The adoption of this guidance will not have a significant impact on the consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

### (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 restrictions are based on statutory earnings and surplus levels of the Company. The maximum dividend payment which may be made without prior approval in 2011 is \$87.5 million. The Company did not pay cash dividends on common stock during the three months ended March 31, 2011 and 2010.

Table of Contents

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

## (4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average basic common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options in the denominator.

	Three Months Ended March 31,			
	2011		2010	
	Class A	Class B	Class A	Class B
	(In thousands, except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$18,211		18,408	
Dividends – Class A shares	-		-	
Dividends – Class B shares	-		-	
Undistributed income	\$18,211		18,408	
Allocation of net income:				
Dividends	\$-	-	-	-
Allocation of undistributed income	17,696	515	17,886	522
Net income	\$17,696	515	17,886	522
Denominator:				
Basic earnings per share - weighted-average shares	3,430	200	3,426	200
Effect of dilutive stock options	9	-	14	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,439	200	3,440	200
Basic Earnings Per Share	\$5.16	2.58	5.22	2.61
Diluted Earnings Per Share	\$5.15	2.58	5.20	2.61

Table of Contents

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

## (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"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Going forward future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following table summarizes the components of net periodic benefit cost.

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Service cost	\$-	-
Interest cost	259	259
Expected return on plan assets	(259	) (259
Amortization of prior service cost	1	1
Amortization of net loss	124	124
<b>Net periodic benefit cost</b>	<b>\$125</b>	<b>125</b>

The Company expects to contribute \$406,000 to the plan in 2011. During the three months ended March 31, 2011, the Company contributed \$91,000 to the plan.

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 defined benefit 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 defined benefit plan as previously discussed, while complying with the requirements of the Act.

Table of Contents

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

The following summarizes the components of net periodic benefit costs for the chairman and president non-qualified defined benefit plans.

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Service cost	\$13	13
Interest cost	266	266
Amortization of prior service cost	129	129
Amortization of net loss	164	164
Net periodic benefit cost	\$572	572

The Company expects to contribute \$2.0 million to these plans in 2011. During the three months ended March 31, 2011, the Company contributed \$429,000 to the plans.

**(B) Defined Benefit Postretirement Plans**

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Interest cost	\$38	34
Amortization of prior service cost	28	26
Net periodic benefit cost	\$66	60

Table of Contents

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

## (6) SEGMENT AND OTHER OPERATING 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, 2011 and 2010 is provided below.

## Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Total
	(In thousands)				
March 31, 2011:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$42,078	227,966	589,592	-	859,636
Total segment assets	391,358	1,042,710	7,326,346	213,103	8,973,517
Future policy benefits	326,875	735,002	6,414,621	-	7,476,498
Other policyholder liabilities	13,239	23,142	118,687	-	155,068
Three Months Ended					
March 31, 2011:					
Condensed Income Statements:					
Premiums and contract revenues	\$6,032	24,560	3,262	-	33,854
Net investment income	4,996	13,021	113,112	2,386	133,515
Other income	7	24	4,061	5,814	9,906
Total revenues	11,035	37,605	120,435	8,200	177,275
Policy benefits	5,234	4,962	2,020	-	12,216
Amortization of deferred acquisition costs	2,883	8,198	16,408	-	27,489
Universal life and investment annuity contract interest	2,638	12,919	76,592	-	92,149
Other operating expenses	3,666	6,926	4,903	5,223	20,718
Federal income taxes	(1,165 )	1,583	7,059	1,025	8,502
Total expenses	13,256	34,588	106,982	6,248	161,074
Segment earnings (loss)	\$(2,221 )	3,017	13,453	1,952	16,201

Table of Contents

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

## Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Total
March 31, 2010:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$47,966	206,341	492,528	-	746,835
Total segment assets	397,745	1,085,261	6,214,584	-	7,697,590
Future policy benefits	323,675	662,901	5,315,860	-	6,302,436
Other policyholder liabilities	11,395	24,419	107,307	-	143,121
Three Months Ended					
March 31, 2010:					
Condensed Income Statements:					
Premiums and contract revenues	\$6,985	24,117	4,609	-	35,711
Net investment income	4,798	10,322	86,181	1,549	102,850
Other income	33	65	552	5,502	6,152
<b>Total revenues</b>	<b>11,816</b>	<b>34,504</b>	<b>91,342</b>	<b>7,051</b>	<b>144,713</b>
Policy benefits	3,250	9,140	897	-	13,287
Amortization of deferred acquisition costs	2,740	6,675	14,354	-	23,769
Universal life and investment annuity contract interest	2,462	10,149	50,090	-	62,701
Other operating expenses	2,913	6,556	3,707	4,140	17,316
Federal income taxes	146	643	7,221	943	8,953
<b>Total expenses</b>	<b>11,511</b>	<b>33,163</b>	<b>76,269</b>	<b>5,083</b>	<b>126,026</b>
<b>Segment earnings</b>	<b>\$305</b>	<b>1,341</b>	<b>15,073</b>	<b>1,968</b>	<b>18,687</b>

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

	Three Months Ended March 31, 2011      2010 (In thousands)	
Premiums and Other Revenue:		
Premiums and contract revenues	\$33,854	35,711
Net investment income	133,515	102,850



Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-Q

Other income	9,906	6,152
Realized gains (losses) on investments	3,092	(429 )
Total consolidated premiums and other revenue	\$ 180,367	144,284

17

---

Table of Contents

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Federal Income Taxes:		
Total segment Federal income taxes	\$8,502	8,953
Taxes on realized gains (losses) on investments	1,082	(150 )
Total consolidated Federal income taxes	\$9,584	8,803

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Net Earnings:		
Total segment earnings	\$16,201	18,687
Realized gains (losses) on investments, net of taxes	2,010	(279 )
Total consolidated net earnings	\$18,211	18,408

	March 31,	
	2011	2010
	(In thousands)	
Assets:		
Total segment assets	\$8,973,517	7,697,590
Other unallocated assets	56,479	71,494
Total consolidated assets	\$9,029,996	7,769,084

**(7) SHARE-BASED PAYMENTS**

The Company has a stock and incentive plan ("1995 Plan") which provides for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, \$1.00 par value, common stock which were allowed to be issued under the 1995 Plan, or as to which stock appreciation rights or other awards which were allowed to be granted, could not exceed 300,000. Effective June 20, 2008, the Company's shareholders approved a 2008 Incentive Plan ("2008 Plan"). The 2008 Plan is substantially similar to the 1995 Plan and authorized an additional number of Class A, \$1.00 par value, common stock shares eligible for issue not to exceed 300,000. These shares may be authorized and unissued shares. The Company has issued only nonqualified stock options and stock appreciation

rights under these plans.

All of the employees of the Company and its subsidiaries are eligible to participate in the two Plans. In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' grants vest 20% annually following one full year of service to the Company from the date of grant. The employees' grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years. No awards were issued during the first quarter of 2011 and 2010.

Table of Contents

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

Effective during March 2006, the Company adopted and implemented a limited stock buy-back program with respect to the 1995 Plan which provides option holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election. The buy-back program did not alter the terms and conditions of the Plan; however the program necessitated a change in accounting from the equity classification to the liability classification.

In August 2008, the Company implemented another limited stock buy-back program, substantially similar to the 2006 program, for shares issued under the 2008 Plan.

The Company uses the current fair value method to measure compensation cost. As of March 31, 2011 the liability balance was \$3.5 million versus \$4.5 million at December 31, 2010. A summary of shares available for grant and stock option activity is detailed below.

	Shares Available For Grant	Options Outstanding Shares	Weighted- Average Exercise Price
Stock Options:			
Balance at January 1, 2011	293,150	95,573	\$ 180.42
Exercised	-	(4,705 )	92.74
Forfeited	-	-	-
Granted	-	-	-
Balance at March 31, 2011	293,150	90,868	\$ 184.97

	Awards	Stock Appreciation Rights Outstanding	Weighted- Average Exercise Price
Stock Appreciation Rights:			
Balance at January 1, 2011		38,643	\$ 120.57
Exercised		-	-
Forfeited		-	-
Granted		-	-
Balance at March 31, 2011		38,643	\$ 120.57

The total intrinsic value of options exercised was \$332,000 and \$26,000 for the three months ended March 31, 2011 and 2010, respectively. The total share-based liabilities paid were \$346,000 and \$26,000 for the three months ended March 31, 2011 and 2010, respectively. For the quarters ended March 31, 2011 and 2010, the total cash received from the exercise of options under the Plans was \$68,000 and \$0, respectively. There were 1,800 shares vested during the first quarter of 2011.

Table of Contents

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

The following table summarizes information about stock options and stock appreciation rights outstanding at March 31, 2011.

	Number Outstanding	Weighted- Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
\$ 92.13	1,300	0 years	1,300
95.00	2,000	0.2 years	2,000
150.00	51,550	3.1 years	42,050
255.13	27,018	6.9 years	500
208.05	9,000	7.2 years	3,600
236.00	750	7.4 years	-
251.49	1,000	7.4 years	-
114.64	36,893	7.8 years	4,100
Totals	129,511		53,550
Aggregate intrinsic value			
(In thousands)	\$ 2,614		\$ 936

The aggregate intrinsic value in the table above is based on the closing stock price of \$162.25 per share on March 31, 2011.

In estimating the fair value of the options outstanding at March 31, 2011 and December 31, 2010, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	2011	2010
Expected term of options	0 to 7.8 years	1 to 8 years
Expected volatility:		
Range	29.76% to 38.98%	28.45% to 78.07%
Weighted-average	34.31 %	38.20 %
Expected dividend yield	0.23 %	0.20 %
Risk-free rate:		
Range	0.79% to 3.30%	0.92% to 3.68%
Weighted-average	1.91 %	2.31 %

The Company reviewed the contractual term relative to the options as well as perceived future behavior patterns of exercise. Volatility is based on the Company's historical volatility over the expected term of the option's expected exercise date.

The pre-tax compensation cost recognized in the financial statements related to the Plan was \$(0.7) million and \$0.7 million for the three months ended March 31, 2011 and 2010, respectively. The related tax benefit (expense) recognized was \$(0.2) million and \$0.3 million for the three months ended March 31, 2011 and 2010, respectively.

As of March 31, 2011, the total compensation cost related to nonvested options not yet recognized was \$1.5 million. This amount is expected to be recognized over a weighted-average period of 2.0 years. The Company recognizes compensation cost over the graded vesting periods.

Table of Contents

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

(8) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

In the normal course of business, the Company is involved or may become involved in various legal actions in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. In recent years, carriers offering life insurance and annuity products have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. As discussed below, the Company has been a defendant over the past several years in two such class action lawsuits. Given the uncertainty involved in these types of actions, the ability to make a reliable evaluation of the likelihood of an unfavorable outcome or an estimate of the amount of or range of potential loss is endemic to the particular circumstances and evolving developments of each individual matter on its own merits.

The Company was a defendant in a class action lawsuit initially filed on September 17, 2004, in the Superior Court of the State of California for the County of Los Angeles. The California state court certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The court additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously against the Company. The California Insurance Department intervened in this case asserting that the Company violated California insurance laws. The parties to this case became involved in court-ordered mediation and ongoing negotiations. On February 22, 2010, the Company reported in a Form 8-K filing a settlement agreement with the plaintiffs and plaintiff in intervention providing a settlement benefit of approximately \$17 million which was included in the Company's legal accrual provision at December 31, 2009. The settlement agreement was given final court approval at a Fairness Hearing on August 20, 2010. Including attorney's fees, policy benefits and other considerations, the Company paid out approximately \$22.4 million in the third and fourth quarters of 2010.

The Company is currently a defendant in a second class action lawsuit pending as of June 12, 2006, in the U.S. District Court for the Southern District of California. The case is titled *In Re National Western Life Insurance Deferred Annuities Litigation*. The complaint asserts claims for RICO violations, Financial Elder Abuse, Violation of Cal. Bus. & Prof. Code 17200, et seq, Violation of Cal. Bus. & Prof. Code 17500, et seq, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Fraudulent Concealment, Cal. Civ. Code 1710, et seq, Breach of the Duty of Good Faith and Fair Dealing, and Unjust Enrichment and Imposition of Constructive Trust. On July 12, 2010 the Court certified a nationwide class of policyholders under the RICO allegation and a California class under all of the remaining causes of action except breach of fiduciary duty. The Company believes that it has meritorious defenses in this cause and intends to vigorously defend itself against the asserted claims. Therefore, no amounts have been provided in the consolidated financial statements of the Company as of March 31, 2011 for this matter.

In addition to the two class action lawsuits described above, the Company is the named defendant in the case of *Sheila Newman vs. National Western Life Insurance Company*, which alleged mishandling of policyholder funds by an agent. On February 3, 2010, the 415th Judicial District Court of Parker County in Weatherford, Texas, entered a Final Judgment against the Company of approximately \$208,000 including actual damages of \$113,000 and amounts for attorney's fees, and prejudgment interest on the actual damages. In addition, the Final Judgment included \$150 million for 2nd exemplary damages. The Company is vigorously defending this case and has appealed the Final Judgment to the Court of Appeals in Ft. Worth, Texas. The Company's counsel believes the Final Judgment is inconsistent with current state and federal laws and intends to establish on appeal that it is not liable for Newman's actual or exemplary damages. Further, Company counsel have advised of existing law that governs limits of awards of exemplary damages



including: (1) a Texas statute that limits awards of exemplary damages to two times the amount of actual damages, and (2) case law from both the Texas Supreme Court and the United States Supreme Court setting the outer limits of exemplary damages to single-digit ratios between actual and exemplary damages, but usually no more than 3 or 4 times the actual damages. The Company has accrued \$0.6 million at March 31, 2011 for this matter inasmuch as it believes the record shows there is no basis for an award of exemplary damages in excess of these amounts.

Table of Contents

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

In addition to amounts accrued for incurred and unpaid legal fees, the amounts accrued in the financial statements at March 31, 2011 of \$0.6 million for the foregoing lawsuits represent estimates made by the Company based upon current information and are subject to change as facts and circumstances change and develop. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from such other potential, pending, or threatened legal actions will have a material adverse effect on the financial condition or operating results of the Company.

The Company had been involved in litigation as the plaintiff in a matter pending in the United States District Court for the Western District of Texas (“District Court”) against defendant, Western National Life Insurance Company and its parent company, AGC Life Insurance Company. The matter dealt with the alleged infringement of registered trademarks held by the Company. On March 25, 2011, the parties executed a Memorandum of Understanding on Settlement (“Memorandum”) under which the Company is to receive a settlement payment of \$4 million no later than June 30, 2011. This amount is included in other revenue in the current financial statements. The Memorandum also outlines corrective measures to be followed by the parties. The Memorandum requires notification to the District Court of the settlement and calls for the parties to agree upon a final written confidential settlement agreement containing the essential terms outlined in the Memorandum.

In January 2009, the SEC published its newly adopted Rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defined “indexed annuities to be securities and thus subject to regulation by the SEC under federal securities laws”. Currently indexed annuities sold by life insurance companies are regulated by the States as insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain “annuity contracts,” “optional annuity contracts,” and other insurance contracts. The Company and others subsequently filed suit in the U.S. Court of Appeals for the District of Columbia to overturn this rule, which was scheduled to be effective January 12, 2011. The U.S. Court of Appeals (D.C. Circuit) vacated Rule 151A on July 12, 2010. Further, Congress passed and the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act on July 21, 2010 (“Dodd-Frank Act”). The Dodd-Frank Act treats annuities as exempt under Sec. 3(a)(8) of the Securities Act of 1933 if they meet a three prong test. The Company does not foresee any significant issues in meeting this test. On October 14, 2010, the Securities and Exchange Commission gave notice that it was withdrawing Rule 151A under the Securities Act of 1933, effective as of the date of publication in the Federal Register.

Table of Contents

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

## (9) INVESTMENTS

## (A) Investment Gains and Losses

The table below presents realized investment gains and losses, excluding impairment losses, for the periods indicated.

	Three months ended March 31,	
	2011	2010
	(In thousands)	
Available for sale debt securities:		
Realized gains on disposal	\$2,807	238
Realized losses on disposal	-	-
Held to maturity debt securities:		
Realized gains on disposal	374	98
Realized losses on disposal	-	(6 )
Equity securities realized gains	-	22
Real estate write-down	(50 )	(174 )
Mortgage loans write-downs	(39 )	(385 )
Other	-	-
<b>Totals</b>	<b>\$3,092</b>	<b>(207 )</b>

The Company uses the specific identification method in computing realized gains and losses.

The table below presents net impairment losses recognized in earnings for the periods indicated.

	Three months ended March 31,	
	2011	2010
	(In thousands)	
Total other-than-temporary impairment losses on debt securities	\$-	(248 )
Portion of loss recognized in comprehensive income	-	26
Net impairment losses on debt securities recognized in earnings	-	(222 )
<b>Totals</b>	<b>\$-</b>	<b>(222 )</b>

Table of Contents

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

For the three months ended March 31, 2011, the Company did not recognize any other-than-temporary impairments.

The table below presents a roll forward of credit losses on securities for which the Company also recorded non-credit other-than-temporary impairments under FAS 115-2 and FAS 124-2 in other comprehensive loss.

	Three Months Ended March 31, 2011	Year Ended December 31, 2010
(In thousands)		
Beginning balance, cumulative credit losses related to other-than-temporary impairments	\$ 997	327
Additions for credit losses not previously recognized in other-than-temporary impairments	-	670
Ending balance, cumulative credit losses related to other-than-temporary impairment.	\$ 997	997

## (B) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at March 31, 2011.

	Amortized Cost	Securities Held to Maturity Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Debt securities:				
U.S. Agencies	\$ 184,530	2,805	(3,977 )	183,358
U.S. Treasury	1,936	410	(2 )	2,344
States and political subdivisions	330,223	2,781	(12,266 )	320,738
Foreign governments	9,973	986	-	10,959
Public utilities	719,135	49,632	(6,653 )	762,114
Corporate	1,863,534	124,926	(12,265 )	1,976,195
Mortgage-backed	1,998,081	121,925	(9,800 )	2,110,206
Home equity	25,163	646	(1,447 )	24,362
Manufactured housing	18,555	752	(48 )	19,259

Totals	\$5,151,130	304,863	(46,458 )	5,409,535
--------	-------------	---------	-----------	-----------

24

---

Table of Contents

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

The table below presents amortized costs and fair values of securities available for sale at March 31, 2011.

	Amortized Cost	Securities Available for Sale		Fair Value
		Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	
Debt securities:				
States and political subdivisions	\$3,941	-	(506 )	3,435
Foreign governments	10,280	535	-	10,815
Public utilities	331,794	26,432	(204 )	358,022
Corporate	1,688,468	120,227	(3,937 )	1,804,758
Mortgage-backed	194,858	11,445	(408 )	205,895
Home equity	12,649	-	(3,271 )	9,378
Manufactured housing				