

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

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

FORM 10-Q/A
AMENDMENT NO. 1

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

For the Quarterly Period Ended June 30, 2006

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

For the transition period from _____ to _____

Commission File Number: 2-17039

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Exact name of Registrant as specified in its charter)

COLORADO
(State of Incorporation)

84-0467208
(I.R.S. Employer Identification Number)

850 EAST ANDERSON LANE
AUSTIN, TEXAS 78752-1602
(Address of Principal Executive Offices)

(512) 836-1010
(Telephone Number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of August 7, 2006, the number of shares of Registrant's common stock outstanding was: Class A - 3,420,824 and Class B - 200,000.

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 second quarter ended June 30, 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 August 9, 2006, except for the matters discussed in Part I, Part 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)

	(Unaudited) June 30, 2006	December 31, 2005
ASSETS	<hr/>	<hr/>

Investments:

Securities held to maturity, at amortized cost	\$	3,618,542	3,524,724
Securities available for sale, at fair value		1,721,061	1,744,727
Mortgage loans, net of allowances for possible losses (\$0 and \$368)		105,908	110,639
Policy loans		86,502	86,385
Derivatives		35,927	39,405
Other long-term investments		26,457	30,013
		<u>5,594,397</u>	<u>5,535,893</u>
Total investments			
Cash and short-term investments		28,406	31,355
Deferred policy acquisition costs		649,829	620,129
Deferred sales inducements		90,974	80,450
Accrued investment income		63,384	61,283
Federal income tax receivable		4,559	2,107
Other assets		47,662	37,791
		<u>47,662</u>	<u>37,791</u>
	\$	<u>6,479,211</u>	<u>6,369,008</u>

Note: The condensed consolidated balance sheet at December 31, 2005, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited)	
	June 30, 2006	December 31, 2005
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	\$ 139,536	139,309
Universal life and annuity contracts	5,254,232	5,176,610
Other policyholder liabilities	113,559	100,557
Deferred Federal income tax liability	23,401	37,735

Other liabilities	60,300	40,789
	<u>60,300</u>	<u>40,789</u>
Total liabilities	5,591,028	5,495,000
	<u>5,591,028</u>	<u>5,495,000</u>
COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,446,482 issued and 3,433,653 outstanding in 2006 and 3,412,839 issued and outstanding in 2005	3,434	3,413
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2006 and 2005	200	200
Additional paid-in capital	40,624	37,923
Accumulated other comprehensive income (loss)	(11,325)	10,564
Retained earnings	858,180	821,908
Less treasury stock at cost; 12,829 shares in 2006	(2,930)	-
	<u>(2,930)</u>	<u>-</u>
Total stockholders' equity	888,183	874,008
	<u>888,183</u>	<u>874,008</u>
	\$ 6,479,211	6,369,008
	<u>\$ 6,479,211</u>	<u>6,369,008</u>

Note: The condensed consolidated balance sheet at December 31, 2005, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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

For the Three Months Ended June 30, 2006 and 2005

(Unaudited)

(In thousands, except per share amounts)

	<u>2006</u>	<u>2005</u>
Premiums and other revenue:		
Traditional life and annuity premiums	\$ 4,097	3,932
Universal life and annuity contract revenues	25,598	24,642
Net investment income	66,323	79,488

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Other income	3,009	2,319
Realized gains on investments	<u>1,616</u>	<u>7,616</u>
Total premiums and other revenue	<u>100,643</u>	<u>117,997</u>
Benefits and expenses:		
Life and other policy benefits	7,646	9,432
Amortization of deferred policy acquisition costs	22,715	22,325
Universal life and annuity contract interest	23,565	39,172
Other operating expenses	<u>13,724</u>	<u>11,098</u>
Total benefits and expenses	<u>67,650</u>	<u>82,027</u>
Earnings before Federal income taxes	32,993	35,970
Provision for Federal income taxes:		
Current	9,286	11,592
Deferred	<u>1,480</u>	<u>280</u>
Total Federal income taxes	<u>10,766</u>	<u>11,872</u>
Net earnings	<u>\$ 22,227</u>	<u>24,098</u>
Basic Earnings Per Share	<u>\$ 6.13</u>	<u>6.70</u>
Diluted Earnings Per Share	<u>\$ 6.07</u>	<u>6.64</u>

See accompanying notes to condensed consolidated financial statements.

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

For the Six Months Ended June 30, 2006 and 2005

(Unaudited)

(In thousands, except per share amounts)

	<u>2006</u>	<u>2005</u>
Premiums and other revenue:		
Traditional life and annuity premiums	\$ 8,088	7,413
Universal life and annuity contract revenues	52,554	48,590

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Net investment income	165,010	142,234
Other income	8,207	4,552
Realized gains on investments	3,039	8,584
	<u> </u>	<u> </u>
Total premiums and other revenue	236,898	211,373
	<u> </u>	<u> </u>
Benefits and expenses:		
Life and other policy benefits	19,088	20,660
Amortization of deferred policy acquisition costs	45,013	41,399
Universal life and annuity contract interest	79,613	66,527
Other operating expenses	39,098	22,141
	<u> </u>	<u> </u>
Total benefits and expenses	182,812	150,727
	<u> </u>	<u> </u>
Earnings before Federal income taxes	54,086	60,646
	<u> </u>	<u> </u>
Provision (benefit) for Federal income taxes:		
Current	20,773	17,884
Deferred	(2,959)	2,462
	<u> </u>	<u> </u>
Total Federal income taxes	17,814	20,346
	<u> </u>	<u> </u>
Net earnings	\$ 36,272	40,300
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Basic Earnings Per Share	\$ 10.01	11.21
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Diluted Earnings Per Share	\$ 9.91	11.11
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

See accompanying notes to condensed consolidated financial statements.

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

For the Three Months Ended June 30, 2006 and 2005

(Unaudited)

(In thousands)

	2006	2005
	<u> </u>	<u> </u>
Net earnings	\$ 22,227	24,098
	<u> </u>	<u> </u>

Other comprehensive income (loss) net of effects of deferred policy acquisition costs and taxes:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	(9,898)	11,124
Reclassification adjustment for gains included in net earnings	(806)	(276)
Amortization of net unrealized losses (gains) related to transferred securities	1	(15)
Net unrealized gains (losses) on securities	(10,703)	10,833
Foreign currency translation adjustments	100	16
Other comprehensive income (loss)	(10,603)	10,849
Comprehensive income	\$ 11,624	34,947

See accompanying notes to condensed consolidated financial statements.

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

For the Six Months Ended June 30, 2006 and 2005

(Unaudited)

(In thousands)

	2006	2005
Net earnings	\$ 36,272	40,300
Other comprehensive income (loss), net of effects of deferred policy acquisition costs and taxes:		
Net unrealized gains (losses) on securities:		
Net unrealized holding gains (losses) arising during period	(20,260)	1,243
Reclassification adjustment for gains included in net earnings	(1,698)	(505)
Amortization of net unrealized losses (gains) related to transferred securities	(96)	12
Net unrealized gains (losses) on securities	(22,054)	750
Foreign currency translation adjustments	165	185
Other comprehensive income (loss)	(21,889)	935

Comprehensive income	\$	14,383	41,235
		<u> </u>	<u> </u>

See accompanying notes to condensed consolidated financial statements.

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

For the Six Months Ended June 30, 2006 and 2005

(Unaudited)

(In thousands)

	<u>2006</u>	<u>2005</u>
Common stock:		
Balance at beginning of year	\$ 3,613	3,584
Shares exercised under stock option plan	21	21
Balance at end of period	<u>3,634</u>	<u>3,605</u>
Additional paid-in capital:		
Balance at beginning of year	37,923	33,834
Shares exercised under stock option plan, including tax benefits	1,435	1,954
Liability awards exercised, including forfeitures	1,266	-
Stock option expense	-	509
Balance at end of period	<u>40,624</u>	<u>36,297</u>
Accumulated other comprehensive income:		
Unrealized gains on securities:		
Balance at beginning of year	10,401	25,032
Change in unrealized gains (losses) during period	(22,054)	750
Balance at end of period	<u>(11,653)</u>	<u>25,782</u>
Foreign currency translation adjustments:		
Balance at beginning of year	3,300	3,170
Change in translation adjustments during period	165	185
Balance at end of period	<u>3,465</u>	<u>3,355</u>
Minimum pension liability adjustment:		
Balance at beginning of year	(3,137)	(2,783)

Change in minimum pension liability adjustment during period	-	-
Balance at end of period	(3,137)	(2,783)
Accumulated other comprehensive income (loss) at end of period	(11,325)	26,354
Retained earnings:		
Balance at beginning of year	821,908	745,835
Net earnings	36,272	40,300
Balance at end of period	858,180	786,135
Treasury shares:		
Balance at beginning of year	-	-
Common stock acquired during period	(2,930)	-
Balance at end of period	(2,930)	-
Total stockholders' equity	\$ 888,183	852,391

See accompanying notes to condensed consolidated financial statements.

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

For the Six Months Ended June 30, 2006 and 2005

(Unaudited)

(In thousands)

	2006	2005
Cash flows from operating activities:		
Net earnings	\$ 36,272	40,300
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	79,613	66,527
Surrender charges and other policy revenues	(16,283)	(14,579)
Realized gains on investments	(3,039)	(8,584)
Accrual and amortization of investment income	(2,655)	(1,791)
Depreciation and amortization	770	804
Decrease in value of derivatives	6,905	9,278

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Increase in deferred policy acquisition and sale inducement costs	(2,817)	(11,076)
Increase in accrued investment income	(2,101)	(1,966)
Increase in other assets	(10,575)	(10,106)
Increase (decrease) in liabilities for future policy benefits	226	(1,362)
Increase in other policyholder liabilities	13,002	12,301
Increase (decrease) in Federal income tax liability	(2,687)	998
Increase (decrease) in other liabilities	16,024	(1,884)
Other	(98)	(1,141)
	<u>112,557</u>	<u>77,719</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sales of:		
Securities held to maturity	-	10,853
Securities available for sale	21,368	11,890
Other investments	21,759	31,018
Proceeds from maturities and redemptions of:		
Securities held to maturity	105,889	170,584
Securities available for sale	52,497	62,670
Purchases of:		
Securities held to maturity	(197,703)	(297,587)
Securities available for sale	(111,436)	(138,651)
Other investments	(20,780)	(17,360)
Principal payments on mortgage loans	7,547	14,021
Cost of mortgage loans acquired	(2,715)	(5,617)
Decrease (increase) in policy loans	(117)	1,572
Other	(538)	(1,006)
	<u>(124,229)</u>	<u>(157,613)</u>
Net cash used in investing activities		

(Continued on next page)

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

For the Six Months Ended June 30, 2006 and 2005

(Unaudited)

(In thousands)

2006

2005

Cash flows from financing activities:

Deposits to account balances for universal life and annuity contracts	\$ 273,949	328,910
Return of account balances on universal life and annuity contracts	(265,222)	(219,059)
Issuance of common stock under stock option plan	1,687	1,317
Repurchase of common stock	(2,930)	-
	<u>7,484</u>	<u>111,168</u>
Net cash provided by financing activities		
Effect of foreign exchange	<u>1,239</u>	<u>(17)</u>
Net increase (decrease) in cash and cash equivalents	(2,949)	31,257
Cash and cash equivalents at beginning of year	<u>31,355</u>	<u>50,194</u>
Cash and cash equivalents at end of period	<u>\$ 28,406</u>	<u>81,451</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the six month period for:

Interest	\$ 20	20
Income taxes	21,915	17,100

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 June 30, 2006, and the results of its operations and its cash flows for the three months and six months ended June 30, 2006 and 2005. The results of operations for the three months and six months ended June 30, 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.

The FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"), dated June, 2006. The interpretation requires public companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The amount recognized would be the amount that represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability would be recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the financial statements, along with any interest and penalty (if applicable) on the excess. FIN 48 will require a tabular reconciliation of the change in the aggregate unrecognized tax benefits claimed, or expected to be claimed, in tax returns and disclosure relating to accrued interest and penalties for unrecognized tax benefits. Discussion will also be required for those uncertain tax positions where it is reasonably possible that the estimate of the tax benefit will change significantly in the next 12 months. FIN 48 is effective for fiscal years beginning after December 15, 2006. Adoption of FIN 48 is not expected to have a material impact on the Company's 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 Company paid no cash dividends on common stock during the six months ended June 30, 2006 and 2005, as it generally follows a policy of retaining 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 full-time employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The following summarizes the components of net periodic benefit costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Service cost	\$ 172	195	343	343

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Interest cost	243	256	487	487
Expected return on plan assets	(227)	(246)	(455)	(455)
Amortization of prior service cost	1	1	2	2
Amortization of net loss	<u>82</u>	<u>94</u>	<u>165</u>	<u>165</u>
Net periodic benefit cost	<u>\$ 271</u>	<u>300</u>	<u>542</u>	<u>542</u>

As previously disclosed in its financial statements for the year ended December 31, 2005, the Company expects to contribute \$1.0 million to the qualified plan in 2006. No contributions have been made as of June 30, 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.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In thousands)			
Service cost	\$ 324	106	648	211
Interest cost	73	44	146	89
Amortization of prior service cost	161	73	323	146

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Amortization of net loss	-	1	-	2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net periodic benefit cost	\$ 558	224	1,117	448
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As previously disclosed in its financial statements for the year ended December 31, 2005, the Company expects to contribute \$1.0 million to the non-qualified plans in 2006. As of June 30, 2006, the Company has contributed \$0.4 million to the plan.

(B) Defined Benefit Postretirement Plans

The Company sponsors two healthcare plans that were amended in 2004 to provide postretirement benefits to certain fully-vested individuals. The following summarizes the components of net periodic benefit cost.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In thousands)			
Interest cost	\$ 25	26	50	50
Amortization of prior service cost	25	25	51	51
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net periodic benefit cost	\$ 50	51	101	101
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As previously disclosed in its financial statements for the year ended December 31, 2005, the Company expects to contribute minimal amounts to the healthcare plans 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 June 30, 2006 and 2005 is provided below.

Selected Segment Information.

<u>Domestic</u>	<u>International</u>	<u>All</u>		<u>Totals</u>
<u>Life</u>	<u>Life</u>	<u>Annuities</u>	<u>Others</u>	
<u>Insurance</u>	<u>Insurance</u>			
(In thousands)				

June 30, 2006:

Selected Balance Sheet Items:

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Deferred policy acquisition costs and sales inducements	\$	46,914	176,709	517,180	-	740,803
Total segment assets		370,597	671,099	5,319,538	97,658	6,458,892
Future policy benefits		310,334	465,194	4,618,240	-	5,393,768
Other policyholder liabilities		9,977	21,535	82,047	-	113,559

Three Months Ended

June 30, 2006:

C o n d e n s e d I n c o m e

Statements:

Premiums and contract

revenues	\$	5,699	18,700	5,296	-	29,695
Net investment income		5,020	5,173	53,409	2,721	66,323
Other income		<u>7</u>	<u>22</u>	<u>155</u>	<u>2,825</u>	<u>3,009</u>

Total revenues		<u>10,726</u>	<u>23,895</u>	<u>58,860</u>	<u>5,546</u>	<u>99,027</u>
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Life and other policy benefits		3,077	3,839	730	-	7,646
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Amortization of deferred

policy acquisition costs		1,971	4,570	16,174	-	22,715
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Universal life and annuity

contract interest		2,273	3,273	18,019	-	23,565
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Other operating expenses		2,200	3,707	5,199	2,618	13,724
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Federal income taxes		409	2,780	6,053	958	10,200
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Total expenses		<u>9,930</u>	<u>18,169</u>	<u>46,175</u>	<u>3,576</u>	<u>77,850</u>
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Segment earnings	\$	<u><u>796</u></u>	<u><u>5,726</u></u>	<u><u>12,685</u></u>	<u><u>1,970</u></u>	<u><u>21,177</u></u>
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Domestic
Life

International
Life

All

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	<u>Insurance</u>	<u>Insurance</u>	<u>Annuities</u>	<u>Others</u>	<u>Totals</u>
	(In thousands)				
Six Months Ended					
June 30, 2006:					
C o n d e n s e d I n c o m e					
Statements:					
Premiums and contract					
revenues	\$ 11,533	38,084	11,025	-	60,642
Net investment income	10,216	12,187	139,407	3,200	165,010
Other income	<u>15</u>	<u>45</u>	<u>2,862</u>	<u>5,285</u>	<u>8,207</u>
Total revenues	<u>21,764</u>	<u>50,316</u>	<u>153,294</u>	<u>8,485</u>	<u>233,859</u>
Life and other policy benefits	8,031	9,220	1,837	-	19,088
Amortization of deferred policy acquisition costs	3,372	9,511	32,130	-	45,013
Universal life and annuity contract interest	4,543	9,214	65,856	-	79,613
Other operating expenses	7,462	11,825	14,960	4,851	39,098
Federal income taxes (benefit)	<u>(540)</u>	<u>3,460</u>	12,637	1,193	16,750