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

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

For the Quarterly Period Ended June 30, 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 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		

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
Total investments		5,594,397	5,535,893
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
	$	6,479,211	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) 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
Total liabilities	5,591,028	5,495,000
COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,446,482 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)	-
Total stockholders' equity	888,183	874,008
	$ 6,479,211	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 June 30, 2006 and 2005
(Unaudited)
(In thousands, except per share amounts)

	2006	2005
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

Other income	3,009	2,319
Realized gains on investments	1,616	7,616
Total premiums and other revenue	100,643	117,997
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	13,724	11,098
Total benefits and expenses	67,650	82,027
Earnings before Federal income taxes	32,993	35,970
Provision for Federal income taxes:		
Current	9,286	11,592
Deferred	1,480	280
Total Federal income taxes	10,766	11,872
Net earnings	$ 22,227	24,098
Basic Earnings Per Share	$ 6.13	6.70
Diluted Earnings Per Share	$ 6.07	6.64

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)

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

Net investment income	165,010	142,234
Other income	8,207	4,552
Realized gains on investments	3,039	8,584
Total premiums and other revenue	236,898	211,373
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
Total benefits and expenses	182,812	150,727
Earnings before Federal income taxes	54,086	60,646
Provision (benefit) for Federal income taxes:		
Current	20,773	17,884
Deferred	(2,959)	2,462
Total Federal income taxes	17,814	20,346
Net earnings	$ 36,272	40,300
Basic Earnings Per Share	$ 10.01	11.21
Diluted Earnings Per Share	$ 9.91	11.11

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
Net earnings	$ 22,227	24,098

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

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)

	2006	2005
Common stock:		
Balance at beginning of year	$ 3,613	3,584
Shares exercised under stock option plan	21	21
Balance at end of period	3,634	3,605
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	40,624	36,297
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	(11,653)	25,782
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	3,465	3,355
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

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)
Net cash provided by operating activities	112,557	77,719
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)
Net cash used in investing activities	(124,229)	(157,613)

(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)	-
Net cash provided by financing activities		7,484	111,168
Effect of foreign exchange		1,239	(17)
Net increase (decrease) in cash and cash equivalents		(2,949)	31,257
Cash and cash equivalents at beginning of year		31,355	50,194
Cash and cash equivalents at end of period	$	28,406	81,451

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

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	82	94	165	165
Net periodic benefit cost	$ 271	300	542	542

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.

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

Amortization of net loss	-	1	-	2
Net periodic benefit cost	$ 558	224	1,117	448

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.

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

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.	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2006:					
Selected Balance Sheet Items:					

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:						
Condensed Income 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		7	22	155	2,825	3,009
Total revenues		10,726	23,895	58,860	5,546	99,027
Life and other policy benefits		3,077	3,839	730	-	7,646
Amortization of deferred policy acquisition costs		1,971	4,570	16,174	-	22,715
Universal life and annuity contract interest		2,273	3,273	18,019	-	23,565
Other operating expenses		2,200	3,707	5,199	2,618	13,724
Federal income taxes		409	2,780	6,053	958	10,200
Total expenses		9,930	18,169	46,175	3,576	77,850
Segment earnings	$	796	5,726	12,685	1,970	21,177

		Domestic Life	International Life		All	

		Insurance	Insurance	Annuities	Others	Totals
				(In thousands)		
Six Months Ended June 30, 2006:						
Condensed Income 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		15	45	2,862	5,285	8,207
Total revenues		21,764	50,316	153,294	8,485	233,859
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)		(540)	3,460	12,637	1,193	16,750
Total expenses		22,868	43,230	127,420	6,044	199,562
Segment earnings (losses)	$	(1,104)	7,086	25,874	2,441	34,297

Selected Segment Information.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2005:					
Selected Balance Sheet Items:					

Deferred policy acquisition costs and sales inducements	$	46,558	151,340	464,033	-	661,931
Total segment assets		369,499	594,811	5,136,518	93,325	6,194,153
Future policy benefits		304,512	421,106	4,455,778	-	5,181,396
Other policyholder liabilities		10,348	11,484	65,706	-	87,538
Three Months Ended June 30, 2005:						
Condensed Income Statements:						
Premiums and contract revenues	$	6,035	17,305	5,234	-	28,574
Net investment income		4,849	5,752	64,487	4,400	79,488
Other income		8	18	95	2,198	2,319
Total revenues		10,892	23,075	69,816	6,598	110,381
Life and other policy benefits		3,610	5,068	754	-	9,432
Amortization of deferred policy acquisition costs		614	5,931	15,780	-	22,325
Universal life and annuity contract interest		2,188	4,971	32,013	-	39,172
Other operating expenses		2,099	2,772	4,313	1,914	11,098
Federal income taxes		785	1,397	5,475	1,550	9,207
Total expenses		9,296	20,139	58,335	3,464	91,234
Segment earnings	$	1,596	2,936	11,481	3,134	19,147
		Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals

(In thousands)

Six Months Ended June 30, 2005:						
Condensed Income Statements:						
Premiums and contract revenues	$	12,116	34,342	9,545	-	56,003
Net investment income		9,827	11,090	116,158	5,159	142,234
Other income		16	32	182	4,322	4,552
Total revenues		21,959	45,464	125,885	9,481	202,789
Life and other policy benefits		8,270	11,051	1,339	-	20,660
Amortization of deferred policy acquisition costs		1,832	10,845	28,722	-	41,399
Universal life and annuity contract interest		4,369	8,583	53,575	-	66,527
Other operating expenses		4,299	6,101	7,950	3,791	22,141
Federal income taxes		1,062	2,959	11,425	1,896	17,342
Total expenses		19,832	39,539	103,011	5,687	168,069
Segment earnings	$	2,127	5,925	22,874	3,794	34,720

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		2006	2005	2006	2005
		(In thousands)			
Premiums and Other Revenue :					
Premiums and contract revenues	$	29,695	28,574	60,642	56,003
Net investment income		66,323	79,488	165,010	142,234

Other income	3,009	2,319	8,207	4,552
Realized gains on investments	1,616	7,616	3,039	8,584
Total consolidated premiums and other revenue	$ 100,643	117,997	236,898	211,373

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Federal Income Taxes				
:				
Total segment Federal income taxes	$ 10,200	9,207	16,750	17,342
Taxes on realized gains on investments	566	2,665	1,064	3,004
Total consolidated Federal income taxes	$ 10,766	11,872	17,814	20,346

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Net Earnings				
:				
Total segment earnings	$ 21,177	19,147	34,297	34,720
Realized gains on investments, net of taxes	1,050	4,951	1,975	5,580
Total consolidated net earnings	$ 22,227	24,098	36,272	40,300

	June 30,	
	2006	2005
	(In thousands)	

Assets

:

Total segment assets	$	6,458,892	6,194,153
Other unallocated assets		20,319	20,304
Total consolidated assets	$	6,479,211	6,214,457

(7) SHARE-BASED PAYMENTS

The Company has a stock and incentive plan ("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; (4) incentive awards; and (5) performance awards. The Plan began on April 21, 1995, and was to terminate on April 20, 2005, unless terminated earlier by the Board of Directors. The Plan 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 may be issued under the Plan, or as to which stock appreciation rights or other awards may be granted, may not exceed 300,000. These shares may be authorized and unissued shares or treasury shares. The Company has only issued nonqualified stock options.

All of the employees of the Company and its subsidiaries are eligible to participate in the Plan. In addition, directors of the Company, other than Compensation and Stock Option Committee members, are eligible for restricted stock awards, incentive awards, and performance awards. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' stock options vest 20% annually following one full year of service to the Company from the date of grant. The officers' stock options vest 20% annually following three full years of service to the Company from the date of grant. Options issued expire after ten years. No awards were issued in 2006 or 2005.

Through December 31, 2005, the Company classified the Plan as equity, and as such, utilized the grant date fair value method to measure compensation. Effective March 10, 2006, as more fully described below, the Company's Plan classification was changed to liability and accordingly, the Company began using the current fair value method to measure compensation cost. A summary of shares available for grant and stock option activity is detailed below.

		Options Outstanding		
	Shares Available For Grant	Shares		Weighted-Average Exercise Price
Balance at January 1, 2006	21,207	156,959	$	117.62
Stock Options:				
Exercised	-	(20,454)		78.93
Forfeited	2,000	(2,000)		150.00
Balance at June 30, 2006	23,207	134,505	$	123.02

The total intrinsic value of options exercised was $1.1 million and $2.3 million for the six months ended June 30, 2006 and 2005, respectively. The total share-based liabilities paid were $1.8 million for the six months ended June 30, 2006. The total fair value of shares vested during the six months ended June 30, 2006 and 2005 was $2.6 million and $3.3 million, respectively.

The following table summarizes information about stock options outstanding at June 30, 2006.

	Options Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
$ 85.13	1,581	0.8 years	1,581
105.25	22,980	1.8 years	22,980
112.38	6,800	2.0 years	6,800
92.13	31,894	4.8 years	16,637
95.00	7,200	5.0 years	7,200
150.00	64,050	7.8 years	3,800
Totals	134,505		58,998
Aggregate intrinsic value (in thousands)	$ 15,687		$ 8,035

The aggregate intrinsic value in the table above is based on the closing stock price of $239.65 per share on June 30, 2006.

In estimating the fair value of the options outstanding at June 30, 2006, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

Expected term of options	1 to 6 years
Expected volatility:	
Range	15.53% to 24.35%
Weighted-average	21.12%
Expected dividends	-
Risk-free rate:	
Range	5.07% to 5.31%
Weighted-average	5.21%

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

The pre-tax compensation cost recognized in the financial statements related to the Plan was $13.9 million and $0.5 million for the six months ended June 30, 2006 and 2005, respectively. The related tax benefit recognized was $4.9 million and $0.2 million for the six months ended June 30, 2006 and 2005, respectively.

Effective March 10, 2006, the Company adopted and implemented a limited stock buy-back program which provides option holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. The intent of the limited buy-back program was to minimize dilution to the existing shareholders. 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 method to the liability method. The modification affected 35 plan participants who had options outstanding on the date of modification and resulted in $11.7 million of total incremental pre-tax compensation cost due to the change from the equity to liability classification.

As of June 30, 2006, the total compensation cost related to nonvested options not yet recognized was $3.8 million. This amount is expected to be recognized over a weighted-average period of 2 years. The Company recognizes compensation cost over the graded vesting periods.

For the six months ended June 30, 2006 and 2005, the total cash received from the exercise of options under the Plan was $0.5 million and $1.3 million, respectively. The related tax benefit realized for the six months ended June 30, 2006 and 2005 was $1.0 million and $0.7 million, respectively.

The Plan offers two alternatives to option holders for exercising options. In the first alternative, option holders have the choice of either holding shares acquired through exercising options, selling the acquired shares in the open market, or requesting a broker-assisted cashless exercise of all or part of the options exercised. A broker-assisted cashless exercise simultaneously executes the exercise of the options and the sale of acquired shares in the open market with the net proceeds payable to the option holder.

In the second alternative, option holders have the option 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.

(8) 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 insurance 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 June 30, 2006, the Company maintained approximately 123,600 annuity policies in force.

National Western markets and distributes its domestic products through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company currently has approximately 10,900 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 June 30, 2006, the Company had approximately 66,500 international life insurance policies in force representing approximately $12.6 billion in face amount of coverage.

International applications are submitted by independent contractor broker-agents. The Company has approximately 4,000 independent international brokers currently contracted, over 44% 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 socio-economic classes who have su