

NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
November 08, 2007

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2007

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

For the transition period from _____ to _____

Commission File Number: 2-17039

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

COLORADO
(State of Incorporation)

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

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

(512) 836-1010
(Telephone Number)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 7, 2007, the number of shares of Registrant's common stock outstanding was: Class A – 3,422,324 and Class B - 200,000.

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Signatures

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

| | (Unaudited) | December 31, |
|---|------------------|------------------|
| | September 30, | 2006 |
| | 2007 | |
| ASSETS | | |
| Investments: | | |
| Securities held to maturity, at amortized cost | \$ 3,750,933 | 3,603,434 |
| Securities available for sale, at fair value | 1,893,854 | 1,902,568 |
| Mortgage loans, net of allowances for possible losses (\$3,566 and \$2,100) | 98,852 | 103,325 |
| Policy loans | 84,377 | 86,856 |
| Derivatives | 51,797 | 72,012 |
| Other long-term investments | 16,965 | 22,822 |
| Total investments | 5,896,778 | 5,791,017 |
| Cash and short-term investments | 41,036 | 49,901 |
| Deferred policy acquisition costs | 653,893 | 643,964 |
| Deferred sales inducements | 101,888 | 93,139 |
| Accrued investment income | 63,469 | 64,393 |
| Federal income tax receivable | 10,922 | - |
| Other assets | 47,197 | 51,029 |
| | \$ 6,815,183 | 6,693,443 |

Note: The condensed consolidated balance sheet at December 31, 2006, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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

| LIABILITIES AND STOCKHOLDERS' EQUITY | (Unaudited) September 30, 2007 | December 31, 2006 |
|---|--------------------------------------|----------------------|
| LIABILITIES: | | |
| Future policy benefits: | | |
| Traditional life and annuity contracts | \$ 138,720 | 138,382 |
| Universal life and annuity contracts | 5,454,962 | 5,395,075 |
| Other policyholder liabilities | 117,342 | 112,449 |
| Federal income tax liability: | | |
| Current | - | 1,666 |
| Deferred | 46,366 | 32,207 |
| Other liabilities | 77,727 | 80,680 |
| Total liabilities | 5,835,117 | 5,760,459 |
| COMMITMENTS AND CONTINGENCIES (Note 5 and 9) | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock: | | |
| Class A - \$1 par value; 7,500,000 shares authorized; 3,422,324 and 3,420,824 issued and outstanding in 2007 and 2006 | 3,422 | 3,421 |
| Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2007 and 2006 | 200 | 200 |
| Additional paid-in capital | 36,236 | 36,110 |
| Accumulated other comprehensive loss | (9,458) | (3,731) |
| Retained earnings | 949,666 | 896,984 |
| Total stockholders' equity | 980,066 | 932,984 |
| | \$ 6,815,183 | 6,693,443 |

Note: The condensed consolidated balance sheet at December 31, 2006, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months Ended September 30, 2007 and 2006
(Unaudited)
(In thousands, except per share amounts)

| | 2007 | 2006 |
|---|------------------|----------------|
| Premiums and other revenue: | | |
| Traditional life and annuity premiums | \$ 4,755 | 3,654 |
| Universal life and annuity contract revenues | 30,025 | 26,923 |
| Net investment income | 75,075 | 96,049 |
| Other income | 3,786 | 3,064 |
| Realized gains (losses) on investments | (1,505) | 190 |
| Total premiums and other revenue | 112,136 | 129,880 |
| Benefits and expenses: | | |
| Life and other policy benefits | 11,337 | 9,212 |
| Amortization of deferred acquisition costs | 25,238 | 24,430 |
| Universal life and annuity contract interest | 38,219 | 59,065 |
| Other operating expenses | 12,871 | 12,513 |
| Total benefits and expenses | 87,665 | 105,220 |
| Earnings before Federal income taxes | 24,471 | 24,660 |
| Provision (benefit) for Federal income taxes: | | |
| Current | (2,836) | 8,214 |
| Deferred | 11,685 | 374 |
| Total Federal income taxes | 8,849 | 8,588 |
| Net earnings | \$ 15,622 | 16,072 |
| Basic Earnings Per Share | \$ 4.31 | 4.44 |
| Diluted Earnings Per Share | \$ 4.28 | 4.40 |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)
(In thousands, except per share amounts)

| | 2007 | 2006 |
|---|------------------|----------------|
| Premiums and other revenue: | | |
| Traditional life and annuity premiums | \$ 14,074 | 11,742 |
| Universal life and annuity contract revenues | 87,474 | 79,477 |
| Net investment income | 260,033 | 261,059 |
| Other income | 10,461 | 11,271 |
| Realized gains on investments | 2,901 | 3,229 |
| Total premiums and other revenue | 374,943 | 366,778 |
| Benefits and expenses: | | |
| Life and other policy benefits | 32,748 | 28,300 |
| Amortization of deferred acquisition costs | 74,660 | 69,443 |
| Universal life and annuity contract interest | 143,037 | 138,678 |
| Other operating expenses | 43,354 | 51,611 |
| Total benefits and expenses | 293,799 | 288,032 |
| Earnings before Federal income taxes | 81,144 | 78,746 |
| Provision (benefit) for Federal income taxes: | | |
| Current | 6,551 | 28,987 |
| Deferred | 18,448 | (2,585) |
| Total Federal income taxes | 24,999 | 26,402 |
| Net earnings | \$ 56,145 | 52,344 |
| Basic Earnings Per Share | \$ 15.50 | 14.46 |
| Diluted Earnings Per Share | \$ 15.37 | 14.32 |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2007 and 2006
(Unaudited)
(In thousands)

| | 2007 | 2006 |
|--|-----------|--------|
| Net earnings | \$ 15,622 | 16,072 |
| Other comprehensive income (loss), net of effects of deferred policy acquisition costs and taxes: | | |
| Net unrealized gains on securities: | | |
| Net unrealized holding gains arising during period | 4,860 | 15,866 |
| Reclassification adjustment for (gains) and losses included in net earnings | 16 | (42) |
| Amortization of net unrealized gains related to transferred securities | 25 | 6 |
| Net unrealized gains on securities | 4,901 | 15,830 |
| Foreign currency translation adjustments | 47 | (317) |
| Benefit plan adjustment | 308 | - |
| Other comprehensive income | 5,256 | 15,513 |
| Comprehensive income | \$ 20,878 | 31,585 |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)
(In thousands)

| | 2007 | 2006 |
|--|-----------|---------|
| Net earnings | \$ 56,145 | 52,344 |
| Other comprehensive income (loss), net of effects of deferred policy acquisition costs and taxes: | | |
| Net unrealized losses on securities: | | |
| Net unrealized holding losses arising during period | (3,745) | (4,394) |
| Reclassification adjustment for gains included in net earnings | (2,848) | (1,740) |
| Amortization of net unrealized gains (losses) related to transferred securities | 79 | (90) |
| Net unrealized losses on securities | (6,514) | (6,224) |
| Foreign currency translation adjustments | (139) | (152) |
| Benefit plan adjustment | 926 | - |
| Other comprehensive loss | (5,727) | (6,376) |
| Comprehensive income | \$ 50,418 | 45,968 |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)
(In thousands)

| | 2007 | 2006 |
|---|----------|---------|
| Common stock: | | |
| Balance at beginning of year | \$ 3,621 | 3,613 |
| Shares exercised under stock option plan | 1 | 8 |
| Balance at end of period | 3,622 | 3,621 |
| Additional paid-in capital: | | |
| Balance at beginning of year | 36,110 | 37,923 |
| Shares exercised under the stock option plan | 126 | 510 |
| Adjustment for stock option liability classification | - | (1,211) |
| Balance at end of period | 36,236 | 37,222 |
| Accumulated other comprehensive income: | | |
| Unrealized gains (losses) on securities: | | |
| Balance at beginning of year | 3,148 | 10,401 |
| Change in unrealized losses during period | (6,514) | (6,224) |
| Balance at end of period | (3,366) | 4,177 |
| Foreign currency translation adjustments: | | |
| Balance at beginning of year | 3,122 | 3,300 |
| Change in translation adjustments during period | (139) | (152) |
| Balance at end of period | 2,983 | 3,148 |
| Benefit plan liability adjustment: | | |
| Balance at beginning of year | (10,001) | (3,137) |
| Change in benefit plan liability adjustment during period | 926 | - |
| Balance at end of period | (9,075) | (3,137) |
| Accumulated other comprehensive loss at end of period | (9,458) | 4,188 |
| Retained earnings: | | |
| Balance at beginning of year | 896,984 | 821,908 |
| Cumulative effect of change in accounting principle, net of tax | (2,195) | - |
| Net earnings | 56,145 | 52,344 |
| Stockholder dividends | (1,268) | (1,267) |
| Balance at end of period | 949,666 | 872,985 |

| | | |
|----------------------------|------------|---------|
| Total stockholders' equity | \$ 980,066 | 918,016 |
|----------------------------|------------|---------|

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)
(In thousands)

| | 2007 | 2006 |
|--|------------------|------------------|
| Cash flows from operating activities: | | |
| Net earnings | \$ 56,144 | 52,344 |
| Adjustments to reconcile net earnings to net cash from operating activities: | | |
| Universal life and annuity contract interest | 143,037 | 138,678 |
| Surrender charges and other policy revenues | (26,776) | (24,226) |
| Realized gains on investments | (2,901) | (3,229) |
| Accrual and amortization of investment income | (3,829) | (3,793) |
| Depreciation and amortization | 746 | 1,030 |
| (Increase) decrease in value of derivatives | 26,393 | (7,901) |
| Increase in deferred policy acquisition and sales inducement costs | (9,730) | (6,479) |
| (Increase) decrease in accrued investment income | 924 | (615) |
| (Increase) decrease in other assets | 582 | (7,126) |
| Increase (decrease) in liabilities for future policy benefits | 338 | (612) |
| Increase in other policyholder liabilities | 4,893 | 15,913 |
| Increase (decrease) in Federal income tax liability | 6,861 | 987 |
| Increase (decrease) in other liabilities | (5,924) | 14,941 |
| Other | 168 | (72) |
| Net cash provided by operating activities | 190,926 | 169,840 |
| Cash flows from investing activities: | | |
| Proceeds from sales of: | | |
| Securities held to maturity | 5,175 | - |
| Securities available for sale | 28,418 | 21,502 |
| Other investments | 33,255 | 32,951 |
| Proceeds from maturities and redemptions of: | | |
| Securities held to maturity | 106,023 | 199,590 |
| Securities available for sale | 268,999 | 86,848 |
| Purchases of: | | |
| Securities held to maturity | (256,014) | (254,994) |
| Securities available for sale | (284,742) | (160,576) |
| Other investments | (35,619) | (33,039) |
| Principal payments on mortgage loans | 21,623 | 8,867 |
| Cost of mortgage loans acquired | (18,480) | (3,999) |
| Decrease in policy loans | (2,309) | (29) |
| Other | (2,006) | (247) |
| Net cash used in investing activities | (135,677) | (103,126) |

(Continued on next page)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)
(In thousands)

| | 2007 | 2006 |
|---|------------|-----------|
| Cash flows from financing activities: | | |
| Deposits to account balances for universal life and annuity contracts | \$ 380,708 | 419,003 |
| Return of account balances on universal life and annuity contracts | (444,877) | (393,077) |
| Issuance of common stock under stock option plan | 127 | 510 |
| Net cash (used in) provided by financing activities | (64,042) | 26,436 |
| Effect of foreign exchange | (72) | 738 |
| Net increase (decrease) in cash and short-term investments | (8,865) | 93,888 |
| Cash and short-term investments at beginning of year | 49,901 | 31,355 |
| Cash and short-term investments at end of period | \$ 41,036 | 125,243 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the nine month period for:

| | | |
|--------------|--------|--------|
| Interest | \$ 30 | 30 |
| Income taxes | 19,155 | 24,990 |

See accompanying notes to condensed consolidated financial statements.

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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 September 30, 2007, and the results of its operations and its cash flows for the three months and nine months ended September 30, 2007 and 2006. The results of operations for the three months and nine months ended September 30, 2007 and 2006 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, 2006 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 2007.

(2) CHANGES IN ACCOUNTING PRINCIPLES

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") which is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. 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. The Company has an impact related to the adoption of SOP 05-1 for contracts which have annuitized and relative to reinstatements of contracts in that the unamortized deferred acquisition costs and deferred sales inducement assets must be written-off at the time of annuitization and may not be continued related to reinstatements. SOP 05-1 results in changes in assumptions relative to estimated gross profits which affects unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this SOP on beginning retained earnings as of January 1, 2007 was a decrease of \$2.2 million, net of tax, as detailed below.

| | Amounts (In thousands) |
|--|---------------------------|
| Write-off of deferred acquisition cost | \$ 3,321 |
| Adjustment to deferred annuity revenue | 56 |
| | 3,377 |

| | |
|---|----------|
| Federal income tax | (1,182) |
| Cumulative effect of change in accounting for internal replacements and investment contracts | \$ 2,195 |

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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 requires 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 is 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. The adoption of FIN 48 did not have a material impact on the Company's consolidated financial statements.

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133, *Accounting for Derivatives and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Hybrid financial instruments are single financial instruments that contain an embedded derivative. Under SFAS No. 155, entities can elect to record certain hybrid financial instruments at fair value as individual financial instruments. Prior to this amendment, certain hybrid financial instruments were required to be separated into two instruments – a derivative and host – and generally only the derivative was recorded at fair value. SFAS No. 155 also requires that beneficial interests in securitized assets be evaluated for either freestanding or embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired or issued after January 1, 2007. SFAS No. 155 did not have a material effect on the Company's consolidated financial statements on the date of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement could change current practices in determining fair value. The Company plans to adopt this guidance effective January 1, 2008. The Company is currently assessing the impact of SFAS No. 157 on the Company's consolidated financial position and results of operations.

In February of 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159.

(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 nine months ended September 30, 2007 and 2006. However, the Company declared a cash dividend on August 24, 2007 payable November 29, 2007 to stockholders on record as of October 31, 2007. The dividends declared were \$0.36 per common share to Class A stockholders and \$0.18 per common share to Class B stockholders. The dividend payment was approved by the Colorado Division of Insurance. A dividend in the same amounts per share on Class A and Class B shares was declared in August and payable in November of 2006.

Table of Contents**(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 | | Nine Months Ended | |
|--|--------------------|------|-------------------|------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |

(In thousands, except per share data)

Numerator for basic and diluted earnings per share:

Earnings available to common stockholders before and after assumed conversions

| | | | | | |
|--|----|--------|--------|--------|--------|
| | \$ | 15,622 | 16,072 | 56,145 | 52,344 |
|--|----|--------|--------|--------|--------|

Denominator:

Basic earnings per share - weighted-average shares

| | | | | | |
|--|--|-------|-------|-------|-------|
| | | 3,622 | 3,621 | 3,622 | 3,620 |
|--|--|-------|-------|-------|-------|

Effect of dilutive stock options

| | | | | | |
|--|--|----|----|----|----|
| | | 31 | 34 | 31 | 36 |
|--|--|----|----|----|----|

Diluted earnings per share - adjusted weighted-average shares for assumed conversions

| | | | | | |
|--|--|-------|-------|-------|-------|
| | | 3,653 | 3,655 | 3,653 | 3,656 |
|--|--|-------|-------|-------|-------|

Basic earnings per share

| | | | | | |
|--|----|------|------|-------|-------|
| | \$ | 4.31 | 4.44 | 15.50 | 14.46 |
|--|----|------|------|-------|-------|

Diluted earnings per share

| | | | | | |
|--|----|------|------|-------|-------|
| | \$ | 4.28 | 4.40 | 15.37 | 14.32 |
|--|----|------|------|-------|-------|

(5) PENSION AND OTHER POSTRETIREMENT PLANS**(A) Defined Benefit Pension Plans**

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The Plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The following summarizes the components of net periodic benefit cost.

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------|-------------------|------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |

(In thousands)

| | | | | | |
|--------------|----|-----|-----|-----|-----|
| Service cost | \$ | 180 | 175 | 540 | 518 |
|--------------|----|-----|-----|-----|-----|

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| | | | | |
|------------------------------------|--------|-------|-------|-------|
| Interest cost | 272 | 279 | 815 | 766 |
| Expected return on plan assets | (275) | (255) | (825) | (710) |
| Amortization of prior service cost | 1 | 1 | 3 | 3 |
| Amortization of net loss | 80 | 99 | 240 | 264 |
| Net periodic benefit cost | \$ 258 | 299 | 773 | 841 |

The Company has contributed \$1.8 million to the qualified plan in 2007. No further contributions are expected in 2007.

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Effective October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Plan as of December 31, 2007. As of that date, the freeze will cease future benefit accruals to all participants and close the Plan to any new participants. In addition, all participants will become immediately 100% vested in their accrued benefits as of that date. Using estimated assumptions the cumulative estimated minimum required contribution for the next five years is \$2.1 million at which time the Plan is expected to be fully funded. Future pension expense is projected to be minimal.

The Company also sponsors a non-qualified defined benefit plan primarily for senior officers. The plan provides benefits based on the participants' years of service and compensation. The pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO"). ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the pension plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to the plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

Effective July 1, 2005, the Company established a second non-qualified defined benefit plan for the benefit of the Chairman of the Company. This plan is intended to provide for post-2004 benefit accruals that mirror and supplement the pre-2005 benefit accruals under the previously discussed non-qualified plan, while complying with the requirements of the Act.

Effective November 1, 2005, the Company established a third non-qualified defined benefit plan for the benefit of the President of the Company. This plan is intended to provide for post-2004 benefit accruals that supplement the pre-2005 benefit accruals under the first non-qualified plan as previously discussed, while complying with the requirements of the Act.

The following summarizes the components of net periodic benefit costs for these non-qualified plans.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| | (In thousands) | | | |
| Service cost | \$ 194 | 574 | 580 | 1,222 |
| Interest cost | 240 | 385 | 721 | 531 |
| Amortization of prior service cost | 260 | 457 | 780 | 780 |
| Amortization of net loss | 101 | 137 | 303 | 137 |
| Net periodic benefit cost | \$ 795 | 1,553 | 2,384 | 2,670 |

The Company expects to contribute \$1.4 million to these plans in 2007. As of September 30, 2007, the Company has contributed \$1.0 million to the plan.

Table of Contents**(B) Defined Benefit Postretirement Plans**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------------------|------|------------------------------------|------|
| | 2007 | 2006 | 2007 | 2006 |
| | (In thousands) | | | |
| Interest cost | \$ 36 | 38 | 106 | 88 |
| Amortization of prior service cost | 25 | 26 | 77 | 77 |
| Amortization of net loss | 7 | - | 22 | - |
| Net periodic benefit cost | \$ 68 | 64 | 205 | 165 |

As previously disclosed in its financial statements for the year ended December 31, 2006, the Company expects to contribute minimal amounts to the plan in 2007.

Table of Contents**(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 September 30, 2007 and 2006 is provided below.

Selected Segment Information.

| | Domestic Life Insurance | International Life Insurance | Annuities (In thousands) | All Others | Totals |
|---|-------------------------------|------------------------------------|-----------------------------|---------------|-----------|
| September 30, 2007: | | | | | |
| <i>Selected Balance Sheet Items:</i> | | | | | |
| Deferred policy acquisition costs and sales inducements | \$ 57,063 | 189,866 | 508,852 | - | 755,781 |
| Total segment assets | 392,465 | 769,225 | 5,513,462 | 104,786 | 6,779,938 |
| Future policy benefits | 318,171 | 541,526 | 4,733,985 | - | 5,593,682 |
| Other policyholder liabilities | 10,915 | 17,225 | 89,202 | - | 117,342 |
| Three Months Ended | | | | | |
| September 30, 2007: | | | | | |
| <i>Condensed Income Statements:</i> | | | | | |
| Premiums and contract | | | | | |
| revenues | \$ 6,875 | 21,826 | 6,079 | - | 34,780 |
| Net investment income | 4,774 | 6,460 | 62,833 | 1,008 | 75,075 |
| Other income | 7 | 19 | 543 | 3,217 | 3,786 |
| Total revenues | 11,656 | 28,305 | 69,455 | 4,225 | 113,641 |
| Life and other policy benefits | 3,969 | 6,353 | 1,015 | - | 11,337 |
| Amortization of deferred policy acquisition costs | 2,229 | 8,045 | 14,964 | - | 25,238 |
| Universal life and annuity contract interest | 2,396 | 6,131 | 29,692 | - | 38,219 |
| Other operating expenses | 2,877 | 3,616 | 3,593 | 2,785 | 12,871 |
| Federal income taxes (benefit) | 42 | 1,457 | 7,314 | 563 | 9,376 |
| Total expenses | 11,513 | 25,602 | 56,578 | 3,348 | 97,041 |
| Segment earnings | \$ 143 | 2,703 | 12,877 | 877 | 16,600 |

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| | Domestic Life Insurance | International Life Insurance | Annuities (In thousands) | All Others | Totals |
|-------------------------------------|-------------------------------|------------------------------------|-----------------------------|---------------|----------------|
| Nine Months Ended | | | | | |
| September 30, 2007: | | | | | |
| <i>Condensed Income Statements:</i> | | | | | |
| Premiums and contract | | | | | |
| revenues | \$ 19,522 | 64,061 | 17,965 | - | 101,548 |
| Net investment income | 13,967 | 21,075 | 220,263 | 4,728 | 260,033 |
| Other income | 34 | 106 | 909 | 9,412 | 10,461 |
| Total revenues | 33,523 | 85,242 | 239,137 | 14,140 | 372,042 |
| Life and other policy benefits | 12,727 | 17,330 | 2,691 | - | 32,748 |
| Amortization of deferred | | | | | |
| policy acquisition costs | 5,041 | 25,401 | 44,218 | - | 74,660 |
| Universal life and annuity | | | | | |
| contract interest | 7,028 | 19,227 | 116,782 | - | 143,037 |
| Other operating expenses | 9,084 | 12,388 | 13,673 | 8,209 | 43,354 |
| Federal income taxes (benefit) | (109) | 3,340 | 18,936 | 1,817 | 23,984 |
| Total expenses | 33,771 | 77,686 | 196,300 | 10,026 | 317,783 |
| Segment earnings (losses) | \$ (248) | 7,556 | 42,837 | 4,114 | 54,259 |

Table of Contents*Selected Segment Information.*

| | Domestic Life Insurance | International Life Insurance | Annuities (In thousands) | All Others | Totals |
|---|-------------------------------|------------------------------------|-----------------------------|---------------|-----------|
| September 30, 2006: | | | | | |
| <i>Selected Balance Sheet Items:</i> | | | | | |
| Deferred policy acquisition costs and sales inducements | \$ 49,041 | 177,482 | 499,212 | - | 725,735 |
| Total segment assets | 377,777 | 691,455 | 5,414,024 | 98,269 | 6,581,525 |
| Future policy benefits | 312,671 | 479,838 | 4,671,975 | - | 5,464,484 |
| Other policyholder liabilities | 9,702 | 21,680 | 85,089 | - | 116,471 |
| Three Months Ended | | | | | |
| September 30, 2006: | | | | | |
| <i>Condensed Income Statements:</i> | | | | | |
| Premiums and contract revenues | \$ 5,932 | 19,364 | 5,281 | - | 30,577 |
| Net investment income | 4,545 | 6,771 | 83,900 | 833 | 96,049 |
| Other income | 10 | 21 | 106 | 2,927 | 3,064 |
| Total revenues | 10,487 | 26,156 | 89,287 | 3,760 | 129,690 |
| Life and other policy benefits | 3,505 | 4,984 | 723 | - | 9,212 |
| Amortization of deferred policy acquisition costs | 1,496 | 6,951 | 15,983 | - | 24,430 |
| Universal life and annuity contract interest | 2,293 | 7,185 | 49,587 | - | 59,065 |
| Other operating expenses | 2,533 | 3,131 | 4,027 | 2,822 | 12,513 |
| Federal income taxes | 212 | 1,376 | 6,598 | 336 | 8,522 |
| Total expenses | 10,039 | 23,627 | 76,918 | 3,158 | 113,742 |
| Segment earnings | \$ 448 | 2,529 | 12,369 | 602 | 15,948 |

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| | Domestic Life Insurance | International Life Insurance | Annuities (In thousands) | All Others | Totals |
|---|-------------------------------|------------------------------------|-----------------------------|---------------|----------------|
| Nine Months Ended September 30, 2006: | | | | | |
| <i>Condensed Income Statements:</i> | | | | | |
| Premiums and contract revenues | \$ 17,465 | 57,448 | 16,306 | - | 91,219 |
| Net investment income | 14,761 | 18,958 | 223,307 | 4,033 | 261,059 |
| Other income | 25 | 66 | 2,968 | 8,212 | 11,271 |
| Total revenues | 32,251 | 76,472 | 242,581 | 12,245 | 363,549 |
| Life and other policy benefits | 11,536 | 14,204 | 2,560 | - | 28,300 |
| Amortization of deferred policy acquisition costs | 4,868 | 16,462 | 48,113 | - | 69,443 |
| Universal life and annuity contract interest | 6,836 | 16,399 | 115,443 | - | 138,678 |
| Other operating expenses | 9,995 | 14,956 | 18,987 | 7,673 | 51,611 |
| Federal income taxes (benefit) | (328) | 4,836 | 19,235 | 1,529 | 25,272 |
| Total expenses | 32,907 | 66,857 | 204,338 | 9,202 | 313,304 |
| Segment earnings (losses) | \$ (656) | 9,615 | 38,243 | 3,043 | 50,245 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| (In thousands) | | | | |
| <i>Premiums and Other Revenue:</i> | | | | |
| Premiums and contract revenues | \$ 34,780 | 30,577 | 101,548 | 91,219 |
| Net investment income | 75,075 | 96,049 | 260,033 | 261,059 |
| Other income | 3,786 | 3,064 | 10,461 | 11,271 |
| Realized gains (losses) on investments | (1,505) | 190 | 2,901 | 3,229 |
| Total consolidated premiums and other revenue | \$ 112,136 | 129,880 | 374,943 | 366,778 |

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| | Three Months Ended September 30, 2007 | | Nine Months Ended September 30, 2007 | |
|--|---|--------------|--|---------------|
| | 2006 | 2006 | 2006 | 2006 |
| | (In thousands) | | | |
| <i>Federal Income Taxes:</i> | | | | |
| Total segment Federal income taxes | \$ 9,376 | 8,522 | 23,984 | 25,272 |
| Taxes on realized gains (losses) on investments | (527) | 66 | 1,015 | 1,130 |
| Total consolidated Federal income taxes | \$ 8,849 | 8,588 | 24,999 | 26,402 |

| | Three Months Ended September 30, 2007 | | Nine Months Ended September 30, 2007 | |
|---|---|---------------|--|---------------|
| | 2006 | 2006 | 2006 | 2006 |
| | (In thousands) | | | |
| <i>Net Earnings:</i> | | | | |
| Total segment earnings | \$ 16,600 | 15,948 | 54,259 | 50,245 |
| Realized gains (losses) on investments, net of taxes | (978) | 124 | 1,886 | 2,099 |
| Total consolidated net earnings | \$ 15,622 | 16,072 | 56,145 | 52,344 |

| | September 30, 2007 | | September 30, 2006 | |
|----------------------------------|-----------------------|--|-----------------------|--|
| | (In thousands) | | | |
| <i>Assets:</i> | | | | |
| Total segment assets | \$ 6,779,938 | | 6,581,525 | |
| Other unallocated assets | 35,245 | | 20,156 | |
| Total consolidated assets | \$ 6,815,183 | | 6,601,681 | |

(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. 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 2007 or 2006.

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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.

| | Shares Available For Grant | Options Outstanding Shares | Weighted- Average Exercise Price |
|-------------------------------|----------------------------------|-------------------------------|---|
| Balance at January 1, 2007 | 26,477 | 128,465 | \$ 123.00 |
| Stock Options: | | | |
| Exercised | - | (31,690) | 106.08 |
| Forfeited | 1,110 | (1,110) | 131.23 |
| Expired | 81 | (81) | 85.13 |
| Balance at September 30, 2007 | 27,668 | 95,584 | \$ 128.54 |

The total intrinsic value of options exercised was \$4.6 million and \$3.2 million for the nine months ended September 30, 2007 and 2006, respectively. The total share-based liabilities paid were \$4.3 million for the nine months ended September 30, 2007. The total fair value of shares vested during the nine months ended September 30, 2007 and 2006 was \$3.2 million and \$2.6 million, respectively.

The following table summarizes information about stock options outstanding at September 30, 2007.

| Exercise prices: | Options Outstanding | | |
|---|-----------------------|--|------------------------|
| | Number Outstanding | Weighted- Average Remaining Contractual Life | Options Exercisable |
| \$ 105.25 | 7,130 | 1.0 years | 7,130 |
| 112.38 | 4,800 | 1.2 years | 4,800 |
| 92.13 | 20,154 | 4.1 years | 13,286 |
| 95.00 | 7,000 | 4.2 years | 7,000 |
| 150.00 | 56,500 | 7.1 years | 13,100 |
| Totals | 95,584 | | 45,316 |
| Aggregate intrinsic value (in thousands) | \$ 12,179 | | \$ 6,455 |

The aggregate intrinsic value in the table above is based on the closing stock price of \$255.96 per share on September 30, 2007.

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In estimating the fair value of the options outstanding at September 30, 2007, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

| | 2007 | 2006 |
|--------------------------|------------------|------------------|
| Expected term of options | 2 to 6 years | 2 to 6 years |
| Expected volatility: | | |
| Range | 16.21% to 23.19% | 15.31% to 24.73% |
| Weighted-average | 19.55% | 19.73% |
| Expected dividends | \$ 0.36 | - |
| Risk-free rate: | | |
| Range | 3.95% to 4.35% | 4.49% to 4.85% |
| Weighted-average | 4.12% | 4.61% |

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

The pre-tax compensation cost recognized in the financial statements related to the Plan was \$2.6 million and \$12.7 million for the nine months ended September 30, 2007 and 2006, respectively. The related tax benefit recognized was \$0.9 million and \$4.4 million for the nine months ended September 30, 2007 and 2006, 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. 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. 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 September 30, 2007, the total compensation cost related to nonvested options not yet recognized was \$2.1 million. This amount is expected to be recognized over a weighted-average period of 1.2 years. The Company recognizes compensation cost over the graded vesting periods.

For the nine months ended September 30, 2007 and 2006, the total cash received from the exercise of options under the Plan was \$0.1 million and \$0.5 million, respectively.

(8) FEDERAL INCOME TAXES

During the second quarter of 2007, upon the completion of a detailed review of the deferred tax items, the Company identified a \$2.3 million error in the net deferred tax liability. The error, which occurred during various periods prior to 2005, was corrected in the second quarter of 2007 and resulted in a decrease in the net deferred tax liability and deferred tax expense. The adjustment was not material to the current period or any prior period financial statements.

(9) 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 was 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 disagreed with the IRS analysis. The Company contested and 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 was subsequently issued by the IRS National Office in the form of a memorandum analyzing the issue which concluded that such loans do not constitute indirect self-dealing. This technical advice memorandum is binding on the IRS audit team.

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The Company is a defendant in three class action lawsuits. The Court has certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The court has additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously, against NWL. Management believes that the Company has good and meritorious defenses and intends to continue 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, fixed indexed annuities and indexed universal life, and traditional life insurance, which include both term and whole life products. The Company's domestic sales have historically been more heavily weighted toward annuity products, which include single and flexible premium deferred annuities, single premium immediate annuities, and fixed indexed annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At September 30, 2007, the Company maintained approximately 121,300 annuity policies in force.

National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company currently has approximately 5,800 independent agents contracted. Roughly 26% 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, Asia 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 September 30, 2007, the Company had approximately 71,000 international life insurance policies in force representing approximately \$14.2 billion in face amount of coverage.

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International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 4,900 independent international consultants and brokers currently contracted, 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 socioeconomic classes who have substantial financial resources. This targeted customer base coupled with the Company's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The Company minimizes exposure to foreign currency risks by requiring payment of premiums, claims and other benefits almost entirely in United States dollars. Finally, the Company's forty years of experience with the international products and its longstanding independent consultant and broker-agents relationships further serve to minimize risks.

SALES**Life Insurance**

The following table sets forth information regarding the Company's life insurance sales activity as measured by annualized first year premiums. While the figures shown below are in accordance with industry practice and represent the amount of new business sold during the periods indicated, they are considered a non-GAAP financial measure. The Company believes sales are a measure of distribution productivity and are a leading indicator of future revenue trends. However, revenues are driven by sales in prior periods as well as in the current period and therefore, a reconciliation of sales to revenues is not meaningful or determinable.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------|-------------------------------------|-------|------------------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | (In thousands) | | | |
| International: | | | | |
| Universal life | \$ 2,544 | 1,858 | 6,695 | 5,329 |
| Traditional life | 1,454 | 969 | 4,946 | 3,105 |
| Fixed indexed life | 6,397 | 4,673 | 16,176 | 12,875 |
| | 10,395 | 7,500 | 27,817 | 21,309 |
| Domestic: | | | | |
| Universal life | 1,826 | 2,074 | 3,158 | 3,231 |