

NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
November 09, 2012

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

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
(State of Incorporation)

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

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

(512) 836-1010
(Telephone Number)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. 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, 2012, the number of shares of Registrant's common stock outstanding was: Class A – 3,434,763 and Class B - 200,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	(Unaudited) September 30, 2012	December 31, 2011
Investments:		
Securities held to maturity, at amortized cost (fair value: \$6,414,860 and \$6,082,330)	\$5,849,916	5,641,909
Securities available for sale, at fair value (cost: \$2,560,225 and \$2,422,650)	2,821,367	2,624,953
Mortgage loans, net of allowance for possible losses (\$0 and \$4,571)	135,776	157,460
Policy loans	74,138	74,967
Derivatives, index options	87,833	30,844
Other long-term investments	41,346	34,472
Total investments	9,010,376	8,564,605
Cash and short-term investments	127,945	119,290
Deferred policy acquisition costs	698,283	722,542
Deferred sales inducements	150,939	155,753
Accrued investment income	93,727	87,875
Federal income tax receivable	1,368	—
Other assets	83,456	77,934
Total assets	\$10,166,094	9,727,999

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	(Unaudited) September 30, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	\$8,329,743	8,023,798
Traditional life reserves	137,857	139,657
Other policyholder liabilities	152,725	151,308
Deferred Federal income tax liability	52,795	46,481
Federal income tax payable	—	5,962
Other liabilities	124,578	84,008
Total liabilities	8,797,698	8,451,214
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,434,763 and 3,434,766 issued and outstanding in 2012 and 2011	3,435	3,435
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2012 and 2011	200	200
Additional paid-in capital	37,767	37,767
Accumulated other comprehensive income	78,751	53,176
Retained earnings	1,248,243	1,182,207
Total stockholders' equity	1,368,396	1,276,785
Total liabilities and stockholders' equity	\$10,166,094	9,727,999

Note: The Condensed Consolidated Balance Sheet at December 31, 2011, has been derived from the audited Consolidated Financial Statements as of that date.

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended September 30, 2012 and 2011

(Unaudited)

(In thousands, except per share amounts)

	2012	2011	
Premiums and other revenues:			
Universal life and annuity contract charges	\$36,924	34,550	
Traditional life premiums	4,124	4,685	
Net investment income	139,074	44,538	
Other revenues	5,923	5,643	
Net realized investment gains (losses):			
Total other-than-temporary impairment ("OTTI") gains (losses)	1,250	(1,741)
Portion of OTTI (gains) losses recognized in other comprehensive income	(1,761	) 1,719	
Net OTTI losses recognized in earnings	(511	) (22)
Other net investment gains (losses)	5,451	2,960	
Total net realized investment gains (losses)	4,940	2,938	
 Total revenues	 190,985	 92,354	
Benefits and expenses:			
Life and other policy benefits	12,323	12,363	
Amortization of deferred policy acquisition costs	28,403	29,909	
Universal life and annuity contract interest	89,386	1,873	
Other operating expenses	22,143	18,948	
 Total benefits and expenses	 152,255	 63,093	
 Earnings before Federal income taxes	 38,730	 29,261	
 Federal income taxes	 14,408	 9,996	
 Net earnings	 \$24,322	 19,265	
Basic earnings per share:			
Class A	\$6.88	5.45	
Class B	\$3.44	2.73	
Diluted earnings per share:			
Class A	\$6.88	5.45	
Class B	\$3.44	2.73	

See accompanying notes to condensed consolidated financial statements (unaudited).

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

(In thousands, except per share amounts)

	2012	2011
Premiums and other revenues:		
Universal life and annuity contract charges	\$109,776	97,014
Traditional life premiums	13,111	13,314
Net investment income	366,813	275,777
Other revenues	17,444	20,247
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	788	(1,741)
Portion of OTTI (gains) losses recognized in other comprehensive income	(1,918 )	) 1,719
Net OTTI losses recognized in earnings	(1,130 )	) (22)
Other net investment gains (losses)	9,242	6,542
Total net realized investment gains (losses)	8,112	6,520
 Total revenues	 515,256	 412,872
Benefits and expenses:		
Life and other policy benefits	39,858	34,177
Amortization of deferred policy acquisition costs	91,463	96,246
Universal life and annuity contract interest	216,933	147,254
Other operating expenses	64,613	58,727
 Total benefits and expenses	 412,867	 336,404
 Earnings before Federal income taxes	 102,389	 76,468
 Federal income taxes	 35,080	 25,203
 Net earnings	 \$67,309	 51,265
Basic earnings per share:		
Class A	\$19.04	14.51
Class B	\$9.52	7.25
Diluted earnings per share:		
Class A	\$19.04	14.49
Class B	\$9.52	7.25

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended September 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011
Net earnings	\$24,322	19,265
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains arising during period	15,202	5,543
Net unrealized liquidity gains (losses)	(3	) (498
Reclassification adjustment for net amounts included in net earnings	(1,175	) (2,069
Amortization of net unrealized (gains) losses related to transferred securities	(1	) 11
Net unrealized gains (losses) on securities	14,023	2,987
Foreign currency translation adjustments	22	(21
Benefit plans:		
Amortization of net prior service cost and net gain (loss)	(19	) 236
Other comprehensive income	14,026	3,202
Comprehensive income	\$38,348	22,467

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011
Net earnings	\$67,309	51,265
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains arising during period	28,578	11,318
Net unrealized liquidity gains (losses)	134	(148)
Reclassification adjustment for net amounts included in net earnings	(3,873	) (4,148)
Amortization of net unrealized (gains) losses related to transferred securities	—	18
Net unrealized gains (losses) on securities	24,839	7,040
Foreign currency translation adjustments	307	(155)
Benefit plans:		
Amortization of net prior service cost and net gain	429	819
Other comprehensive income	25,575	7,704
Comprehensive income	\$92,884	58,969

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011	
Common stock:			
Balance at beginning of period	\$3,635	3,629	
Shares exercised under stock option plan	—	6	
Balance at end of period	3,635	3,635	
Additional paid-in capital:			
Balance at beginning of period	37,767	37,140	
Shares exercised under stock option plan	—	901	
Balance at end of period	37,767	38,041	
Accumulated other comprehensive income:			
Unrealized gains on non-impaired securities:			
Balance at beginning of period	69,116	62,499	
Change in unrealized gains during period, net of tax	24,705	7,188	
Balance at end of period	93,821	69,687	
Unrealized losses on impaired held to maturity securities:			
Balance at beginning of period	(2,320)	(2,713))
Cumulative effect of change in accounting principle	—	—	
Amortization	21	163	
Other-than-temporary impairments, non-credit, net of tax	316	—	
Additional credit loss on previously impaired securities	360	—	
Change in shadow deferred policy acquisition costs	(178)	184)
Balance at end of period	(1,801)	(2,366))
Unrealized losses on impaired available for sale securities:			
Balance at beginning of period	(608)	—	
Other-than-temporary impairments, non-credit, net of tax	—	(1,117))
Change in shadow deferred policy acquisition costs	(955)	622	
Recoveries, net of tax	570	—	
Balance at end of period	(993)	(495))

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
 For the Nine Months Ended September 30, 2012 and 2011
 (Unaudited)
 (In thousands)

	2012	2011
Foreign currency translation adjustments:		
Balance at beginning of period	2,368	2,585
Change in translation adjustments during period	307	(155)
Balance at end of period	2,675	2,430
Benefit plan liability adjustment:		
Balance at beginning of period	(15,380)	(11,963)
Amortization of net prior service cost and net gain, net of tax	429	819
Balance at end of period	(14,951)	(11,144)
Accumulated other comprehensive income at end of period	78,751	58,112
Retained earnings:		
Balance at beginning of period	1,182,207	1,127,614
Net earnings	67,309	51,265
Stockholder dividends	(1,273)	(1,271)
Balance at end of period	1,248,243	1,177,608
Total stockholders' equity	\$1,368,396	\$1,277,396

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011	
Cash flows from operating activities:			
Net earnings	\$67,309	51,265	
Adjustments to reconcile net earnings to net cash from operating activities:			
Universal life and annuity contract interest	216,933	147,254	
Surrender charges and other policy revenues	(10,854	) (1,340)
Realized (gains) losses on investments	(8,112	) (6,520)
Accrual and amortization of investment income	(1,740	) (2,140)
Depreciation and amortization	4,246	4,019	
(Increase) decrease in value of index options	(42,328	) 38,774	
(Increase) decrease in deferred policy acquisition and sales inducement costs	(3,604	) (52,324)
(Increase) decrease in accrued investment income	(5,852	) (10,052)
(Increase) decrease in other assets	(6,088	) (6,015)
Increase (decrease) in liabilities for future policy benefits	8,335	17,250	
Increase (decrease) in other policyholder liabilities	1,417	(3,142)
Increase (decrease) in Federal income taxes	(14,391	) (4,353)
Increase (decrease) in other liabilities	18,416	(322)
Other, net	—	—	
Net cash provided by operating activities	223,687	172,354	
Cash flows from investing activities:			
Proceeds from sales of:			
Securities available for sale	7,539	19,248	
Other investments	8,646	4,732	
Proceeds from maturities and redemptions of:			
Securities held to maturity	1,021,666	375,016	
Securities available for sale	252,464	89,379	
Index options	25,225	73,980	
Purchases of:			
Securities held to maturity	(1,208,044	) (884,205)
Securities available for sale	(388,228	) (263,937)
Index options	(42,184	) (50,239)
Other investments	(5,036	) (10,361)
Principal payments on mortgage loans	38,783	13,577	
Cost of mortgage loans acquired	(16,728	) (33,918)
Decrease (increase) in policy loans	829	4,225	
Other, net	(2) —	
Net cash used in investing activities	(305,070) (662,503)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	715,037	1,116,161
Return of account balances on universal life and annuity contracts	(625,306)	(615,196)
Issuance of common stock under stock option plan	—	908
Net cash provided by financing activities	89,731	501,873
Effect of foreign exchange	307	(154)
Net increase (decrease) in cash and short-term investments	8,655	11,570
Cash and short-term investments at beginning of period	119,290	80,332
Cash and short-term investments at end of period	\$127,945	\$91,902
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$30	\$10
Income taxes	\$49,540	\$30,209
Noncash operating activities:		
Deferral of sales inducements	\$2,965	\$12,386

See accompanying notes to condensed consolidated financial statements (unaudited).

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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 National Western Life Insurance Company and its subsidiaries ("Company" or "National Western") as of September 30, 2012, and the results of its operations and its cash flows for the three and nine months ended September 30, 2012 and 2011. The results of operations for the nine months ended September 30, 2012 and 2011 are not necessarily indicative of the results to be expected for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 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 condensed consolidated balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements as of that date.

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

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

The Company implemented new actuarial reserving systems that enhance its ability to provide better estimates used in establishing future policy liabilities, monitor the deferred acquisition cost asset and the deferred sales inducements asset as well as support other actuarial processes within the Company. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and was completed in the fourth quarter of 2011. As the Company applied these new systems to a line of business, current reserving assumptions were reviewed and updated as appropriate. In different reporting periods during this time period, certain corrections were made to reserve and Deferred Policy Acquisition Costs balances as a result of the implementation of the new reserving system. As the amounts of these corrections were determined to have occurred over the course of multiple previously reported periods, it was concluded that the amounts of the corrections were immaterial to the financial results reported in any of these periods. None of these corrections occurred in 2012.

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

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

(2) NEW ACCOUNTING PRONOUNCEMENTS

During July 2010, the Financial Accounting Standards Board ("FASB") issued new guidance that requires additional disclosures related to an entity's financing receivables and the nature of its credit risks related to financing receivables. The effective date was for interim and annual periods ending after December 15, 2010. The adoption of this guidance was effective December 31, 2010. See Note 9, Investments, of the accompanying condensed consolidated financial statements for additional disclosures. The adoption of this guidance will not have a significant impact on the condensed consolidated financial statements.

During October 2010, the FASB issued new guidance affecting insurance companies that incur costs in the acquisition of new and renewal insurance contracts. The guidance addresses the diversity in practice regarding the interpretation for which costs relating to the acquisition of new or renewal business qualify for deferral. The new guidance specifies the acquisition costs which are capitalizable and those which must be expensed. The effective date is for interim and annual periods ending after December 15, 2011. The Company has evaluated the impact of this guidance on the condensed consolidated financial statements. Based on evaluation of actual expenses from 2011 the Company determined that \$2.5 million of capitalized expenses during 2011 would not have been deferrable under the new guidance. The change would have reduced 2011 pretax operating income by 3.0%. Thus, management prospectively adopted the guidance and has concluded the new guidance does not have a significant impact on the condensed consolidated financial statements.

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

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS". ASU No. 2011-04 does not extend the use of the existing concepts or guidance regarding fair value. The guidance emphasizes using the same meaning and disclosures of fair value within the financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance requires disclosure of additional information about transfers between Level 1 and Level 2 of the fair value hierarchy, additional disclosures for Level 3 fair value measurement, including quantitative and qualitative information about significant unobservable inputs and discussions about the sensitivity of these unobservable inputs and a description of the Company's valuation process. ASU No. 2011-04 is effective for annual reporting periods beginning after December 15, 2011. The Company has included the additional disclosures in the notes to the condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05 "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". ASU No. 2011-05 provides that entities must present the components of net income, the components of comprehensive income and the total of comprehensive income for all periods presented. ASU No. 2011-05 is effective for interim or annual periods beginning on or after December 15, 2011. The provisions of ASU No. 2011-05 relate only to the presentation of other comprehensive income and, accordingly, its adoption did not have an impact on the Company's condensed consolidated financial position or the results of its operations. This guidance was amended by ASU No. 2011-12 below.

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other

Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain provisions of ASU No. 2011-05, Presentation of Comprehensive Income. One of ASU No. 2011-05's provisions requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This requirement is indefinitely deferred by ASU No. 2011-12. ASUs No. 2011-05 and 2011-12 are effective for fiscal years, and interim periods beginning after December 15, 2011. The guidance did not have a significant impact on the condensed consolidated financial statements and current disclosures.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(3) STOCKHOLDERS' EQUITY

The Company is restricted by state insurance laws from the Colorado Division of Insurance as to dividend amounts which may be paid to stockholders without prior approval. The restrictions are based on statutory earnings and surplus levels of the Company. The maximum dividend payment which may be made without prior approval in 2012 is \$91.9 million. The Company did not pay cash dividends on common stock during the nine months ended September 30, 2012 and 2011. However, the Company did declare a cash dividend on August 17, 2012 payable December 3, 2012 to stockholders on record as of October 29, 2012. The dividends declared were \$0.36 per common share to Class A stockholders and \$0.18 per common share to Class B stockholders. A dividend in the same amounts per share on Class A and Class B common stock was declared in August and paid in December of 2011.

(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 September 30,			
	2012		2011	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$24,322		19,265	
Dividends - Class A shares	(1,237	)	(1,235)
Dividends - Class B shares	(36	)	(36)
Undistributed income	\$23,049		17,994	
Allocation of net income:				
Dividends	\$1,237	36	1,235	36
Allocation of undistributed income	22,397	652	17,485	509
Net income	\$23,634	688	18,720	545
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,435	200
Effect of dilutive stock options	—	—	1	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,435	200	3,436	200
Basic Earnings Per Share	\$6.88	3.44	5.45	2.73
Diluted Earnings Per Share	\$6.88	3.44	5.45	2.73

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Nine Months Ended September 30,			
	2012		2011	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$67,309		51,265	
Dividends - Class A shares	(1,237	)	(1,235)
Dividends - Class B shares	(36	)	(36)
Undistributed income	\$66,036		49,994	
Allocation of net income:				
Dividends	\$1,237	36	1,235	36
Allocation of undistributed income	64,168	1,868	48,580	1,414
Net income	\$65,405	1,904	49,815	1,450
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,433	200
Effect of dilutive stock options	—	—	4	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,435	200	3,437	200
Basic Earnings Per Share	\$19.04	9.52	14.51	7.25
Diluted Earnings Per Share	\$19.04	9.52	14.49	7.25

For the three and nine month per share calculations as of September 30, 2012, the exercise price of all outstanding stock options was above the market price of the Company's Class A common shares as of that date. Accordingly, there is no dilutive impact for stock options upon earnings per share during these periods.

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(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Going forward future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following table summarizes the components of net periodic benefit cost.

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	2012	2011	2012	2011
	(In thousands)			
Service cost	\$44	—	131	—
Interest cost	232	258	696	776
Expected return on plan assets	(268	) (259	) (803	) (777
Amortization of prior service cost	1	1	3	3
Amortization of net loss	196	126	589	374
Net periodic benefit cost	\$205	126	616	376

The Company's minimum required contribution for the 2012 plan year is slightly over \$1.1 million of which it expects to contribute just under \$0.5 million during 2012 with the remainder to be contributed in 2013. The Company's minimum required contribution was reduced during the third quarter of 2012 as a result of the Moving Ahead for Progress in the 21st Century Act (MAP-21) which was enacted. In addition, the Company has contributions for the 2011 plan year payable during 2012 of \$0.4 million. As of September 30, 2012, the Company has contributed \$0.7 million to the plan for the 2011 and 2012 plan years.

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 plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to the plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued

accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

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

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

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The following table summarizes the components of net periodic benefit costs for the Chairman and President non-qualified defined benefit plans.

	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
	(In thousands)			
Service cost	\$42	9	126	36
Interest cost	228	190	684	722
Amortization of prior service cost	14	92	44	350
Amortization of net loss	286	118	857	447
Net periodic benefit cost	\$570	409	1,711	1,555

The Company expects to contribute \$2.0 million to these plans in 2012. As of September 30, 2012, the Company has contributed \$1.3 million to the plans.

(B) Defined Benefit Postretirement Healthcare Plans

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
	(In thousands)			
Interest cost	\$32	38	97	113
Amortization of prior service cost	25	28	77	85
Amortization of net loss	11	—	31	—
Net periodic benefit cost	\$68	66	205	198

The Company expects to contribute minimal amounts to the plan in 2012.

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(6) SEGMENT AND OTHER OPERATING INFORMATION

The Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended September 30, 2012 and 2011 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				
September 30, 2012					
Selected Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$38,052	224,814	586,356	—	849,222
Total segment assets	450,649	1,111,039	8,302,668	239,259	10,103,615
Future policy benefits	380,752	821,178	7,265,670	—	8,467,600
Other policyholder liabilities	13,401	11,536	127,788	—	152,725
Three Months Ended September 30, 2012					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$7,680	28,453	4,915	—	41,048
Net investment income	6,037	12,255	115,781	5,001	139,074
Other revenues	(46	) 32	213	5,724	5,923
Total revenues	13,671	40,740	120,909	10,725	186,045
Life and other policy benefits	4,482	4,827	3,014	—	12,323
Amortization of deferred acquisition costs	437	2,083	25,883	—	28,403
Universal life and annuity contract interest	2,976	9,602	76,808	—	89,386
Other operating expenses	3,313	7,069	7,332	4,429	22,143
Federal income taxes (benefit)	865	6,271	3,215	2,328	12,679
Total expenses	12,073	29,852	116,252	6,757	164,934
Segment earnings (loss)	\$1,598	10,888	4,657	3,968	21,111

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Nine Months Ended September 30, 2012 Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$22,499	83,999	16,389	—	122,887
Net investment income	15,846	34,967	302,045	13,955	366,813
Other revenues	6	378	14	17,046	17,444
Total revenues	38,351	119,344	318,448	31,001	507,144
Life and other policy benefits	7,750	14,622	17,486	—	39,858
Amortization of deferred acquisition costs	4,896	15,448	71,119	—	91,463
Universal life and annuity contract interest	11,419	30,845	174,669	—	216,933
Other operating expenses	10,659	19,605	19,104	15,245	64,613
Federal income taxes (benefit)	1,241	13,277	12,335	5,388	32,241
Total expenses	35,965	93,797	294,713	20,633	445,108
Segment earnings (loss)	\$2,386	25,547	23,735	10,368	62,036

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Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
September 30, 2011					
Selected Condensed Consolidated					
Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$40,676	229,656	596,216	—	866,548
Total segment assets	401,243	1,034,324	7,784,519	219,376	9,439,462
Future policy benefits	335,100	744,862	6,831,949	—	7,911,911
Other policyholder liabilities	13,883	17,567	116,934	—	148,384
Three Months Ended					
September 30, 2011					
Condensed Consolidated Income					
Statements:					
Premiums and contract revenues	\$8,345	25,375	5,515	—	39,235
Net investment income	1,655	3,253	33,940	5,690	44,538
Other revenues	3	(20	) 152	5,508	5,643
Total revenues	10,003	28,608	39,607	11,198	89,416
Life and other policy benefits	2,151	4,737	5,475	—	12,363
Amortization of deferred acquisition costs	2,791	8,249	18,869	—	29,909
Universal life and annuity contract interest	2,848	766	(1,741	) —	1,873
Other operating expenses	2,426	4,353	7,059	5,110	18,948
Federal income taxes (benefit)	(66	) 3,561	3,414	2,059	8,968
Total expenses	10,150	21,666	33,076	7,169	72,061
Segment earnings (loss)	\$(147) 6,942	6,531	4,029	17,355

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				
Nine Months Ended September 30, 2011 Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$20,994	75,551	13,783	—	110,328
Net investment income	11,136	25,806	225,882	12,953	275,777
Other revenues	8	346	3,143	16,750	20,247
Total revenues	32,138	101,703	242,808	29,703	406,352
Life and other policy benefits	6,575	13,898	13,704	—	34,177
Amortization of deferred acquisition costs	8,445	24,374	63,427	—	96,246
Universal life and annuity contract interest	7,335	22,192	117,727	—	147,254
Other operating expenses	9,453	15,552	18,282	15,440	58,727
Federal income taxes (benefit)	108	8,417	9,722	4,674	22,921
Total expenses	31,916	84,433	222,862	20,114	359,325
Segment earnings (loss)	\$222	17,270	19,946	9,589	47,027