

KANSAS CITY LIFE INSURANCE CO

Form 8-K

August 11, 2006

United States

Securities and Exchange Commission

Washington, D. C. 20549

Form 8-K

Current Report

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): August 11, 2006

Kansas City Life Insurance Company

(Exact Name of Registrant as Specified in Charter)

Missouri
(State of Incorporation)

2-40764
(Commission File Number)

44-0308260
(IRS Employer Identification No.)

3520 Broadway
Kansas City, Missouri
(Address of Principal Executive Offices)
Telephone Number: (816) 753-7000

64111-2565
(Zip Code)

Not Applicable

(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

Included below is a release of financial information mailed to stockholders on August 11, 2006. It reflects the financial condition, in a condensed format, for Kansas City Life Insurance Company as of June 30, 2006, and was previously included in the Company's second quarter Form 10-Q report filed on August 4, 2006.

Message from the President, CEO and Chairman of the Board

Kansas City Life Insurance Company recorded a 20% increase in net income for the second quarter, as net income of \$10.1 million or \$0.85 per share was recorded in 2006 versus \$8.4 million or \$0.71 per share one year earlier. Net income for the six months ended June 30, 2006 increased 6% from \$16.4 million or \$1.37 per share in 2005 to \$17.3 million or \$1.45 per share for the current six months. The increase for both the second quarter and the six months was primarily attributable to an increase in net investment income and realized investment gains and losses, along with reduced policyholder benefits.

Total revenues increased 3% for the second quarter versus a year earlier, largely due to a 9% improvement in investment revenues. Although total revenues increased only slightly for the first half of 2006, investment revenues grew 3% during this period.

New life insurance and new accident and health premiums increased 7% in the second quarter and 9% for the first six months relative to the prior year. These increases include improvements of 15% and 17% in premiums from new life insurance sales in the Company's Individual Insurance segment during the same respective time periods. These increases are consistent with the Company's emphasis on growing life insurance sales. Sales of universal life and variable universal life deposits together declined 3% during the second quarter but increased 4% for the first six months of 2006 versus the same periods one year earlier. Total premiums declined for both the second quarter and six month periods due to a decline in sales of immediate annuities.

Driving the growth in investment revenue for the quarter and six month periods was a \$2.3 million improvement in realized investment gains in the second quarter. In addition, net investment income increased \$2.0 million in the second quarter and \$2.1 million in the six month period due to improving investment yields and reduced investment expense in the second quarter.

Policyholder benefits declined 4% for both the second quarter and six months. The improvement was primarily due to reduced reserves from the decline in sales of immediate annuities. This decrease partially offset increased benefits paid in the group dental insurance business line and increased surrenders of individual life policies. Total benefits and expenses increased less than 1% during the second quarter and decreased 1% during the six months ended June 30, 2006, including the impact of a 3% increase in operating expenses during both periods.

Kansas City Life operates from a position of having strong capital and a rich tradition of providing Security Assured for generations. The Company's top priority is to grow the individual life insurance business. We are pleased that the priority placed on the growth of the individual life insurance business is being rewarded with improving results, and we look forward to extending our relationships in the second half of 2006.

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Additionally, the Kansas City Life Board of Directors approved a quarterly dividend of \$0.27 per share to be paid August 15, 2006 to shareholders of record as of August 10, 2006.

**Consolidated
Balance Sheets**

(Thousands)

| | June 30 <u>2006</u> (Unaudited) | December 31 <u>2005</u> |
|--|---------------------------------------|----------------------------|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | \$ 2,694,780 | \$ 2,865,476 |
| Equity securities available for sale, at fair value | 58,236 | 52,775 |
| Mortgage loans | 463,739 | 458,668 |
| Short-term investments | 36,373 | 46,383 |
| Other investments | 223,366 | 185,137 |
| Total investments | 3,476,494 | 3,608,439 |
| Cash | 649 | 10,985 |
| Deferred acquisition costs | 224,877 | 226,963 |
| Value of business acquired | 87,329 | 89,505 |
| Other assets | 255,459 | 254,620 |
| Separate account assets | 363,247 | 367,860 |
| Total assets | \$ 4,408,055 | \$ 4,558,372 |
| Liabilities | | |
| Future policy benefits | \$ 853,738 | \$ 860,284 |
| Policyholder account balances | 2,228,214 | 2,278,418 |
| Notes payable | 17,787 | 27,282 |
| Income taxes | 13,040 | 40,155 |
| Other liabilities | 293,417 | 304,154 |
| Separate account liabilities | 363,247 | 367,860 |
| Total liabilities | 3,769,443 | 3,878,153 |
| Stockholders equity | | |
| Common stock | 23,121 | 23,121 |
| Additional paid in capital | 25,426 | 25,063 |
| Retained earnings | 767,686 | 756,807 |
| Accumulated other comprehensive loss | (58,747) | (8,406) |
| Less treasury stock | (118,874) | (116,366) |
| Total stockholders equity | 638,612 | 680,219 |
| Total liabilities and equity | \$ 4,408,055 | \$ 4,558,372 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated
Statements of Income (Unaudited)
(Thousands, except share data)

| | Quarter ended June 30 | | Six Months ended June 30 | |
|--|--------------------------|-----------------|-----------------------------|------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Revenues | | | | |
| Insurance revenues: | | | | |
| Premiums | \$ 44,517 | \$ 46,036 | \$ 88,281 | \$ 92,461 |
| Contract charges | 28,520 | 28,135 | 57,853 | 56,897 |
| Reinsurance ceded | (14,080) | (14,090) | (27,225) | (27,699) |
| Total insurance revenues | 58,957 | 60,081 | 118,909 | 121,659 |
| Investment revenues: | | | | |
| Net investment income | 48,823 | 46,861 | 97,736 | 95,651 |
| Realized investment gains (losses) | 1,905 | (378) | 1,640 | 957 |
| Other revenues | 2,977 | 2,649 | 5,505 | 5,216 |
| Total revenues | 112,662 | 109,213 | 223,790 | 223,483 |
| Benefits and expenses | | | | |
| Policyholder benefits | 41,753 | 43,711 | 86,169 | 89,435 |
| Interest credited to policyholder account balances | 23,435 | 22,698 | 45,061 | 45,908 |
| Amortization of deferred acquisition costs and value of business acquired | 10,867 | 9,434 | 22,316 | 20,768 |
| Operating expenses | 22,393 | 21,714 | 46,081 | 44,823 |
| Total benefits and expenses | 98,448 | 97,557 | 199,627 | 200,934 |
| Income before income tax expense | 14,214 | 11,656 | 24,163 | 22,549 |
| Income tax expense | 4,105 | 3,231 | 6,865 | 6,164 |
| Net income | \$ 10,109 | \$ 8,425 | \$ 17,298 | \$ 16,385 |
| Per common share: | | | | |
| Net income, basic and diluted | \$ 0.85 | \$ 0.71 | \$ 1.45 | \$ 1.37 |
| Cash dividends | \$ 0.27 | \$ 0.27 | \$ 0.54 | \$ 0.54 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated
Statements of Cash Flows (Unaudited)
(Thousands)

| | Six Months ended June 30 | |
|---|-----------------------------|-------------|
| | <u>2006</u> | <u>2005</u> |
| Operating activities | | |
| Net cash provided | \$ 822 | \$ 23,263 |
| Investing activities | | |
| Purchases of investments: | | |
| Fixed maturity securities | (142,044) | (302,895) |
| Equity securities | (9,335) | (1,433) |
| Mortgage loans | (33,740) | (64,943) |
| Other investment assets | (43,735) | (7,119) |
| Sales of investments: | | |
| Fixed maturity securities | 75,493 | 89,312 |
| Equity securities | 965 | 949 |
| Other investment assets | 15,404 | 58,890 |
| Maturities and principal paydowns of other investments | 172,305 | 244,045 |
| Net additions to property and equipment | (402) | (409) |
| Net cash provided | 34,911 | 16,397 |
| Financing activities | | |
| Proceeds from borrowings | 12,680 | 22,264 |
| Repayment of borrowings | (22,176) | (46,587) |
| Deposits on policyholder account balances | 103,308 | 126,008 |
| Withdrawals from policyholder account balances | (137,933) | (119,253) |
| Net transfers from separate accounts | 11,833 | 318 |
| Change in other deposits | (5,218) | (5,851) |
| Cash dividends to stockholders | (6,418) | (6,439) |
| Net acquisition of treasury stock | (2,145) | (1,230) |
| Net cash used | (46,069) | (30,770) |
| Increase (decrease) in cash | (10,336) | 8,890 |
| Cash at beginning of year | 10,985 | 4,147 |
| Cash at end of period | \$ 649 | \$ 13,037 |

See accompanying Notes to Consolidated Financial Statements.

Notes

Comprehensive income (loss) was (\$11,574) and \$41,868 for the second quarter of 2006 and 2005; and (\$33,043) and \$27,365 for the six months ended June 30, 2006 and 2005, respectively. This varies from net income largely due to unrealized gains or losses on investments.

Income per common share is based upon the weighted average number of shares outstanding for the six months, 11,893,746 shares (11,925,998 shares - 2005).

These interim financial statements are unaudited but, in management's opinion, include all adjustments necessary for a fair presentation of the results and are included in the Company's Form 10-Q as filed with the Securities and Exchange Commission.

Please refer to the Company's Form 10-Q and the Company's Annual Report on Form 10-K at www.kclife.com.

Certain amounts in prior years have been reclassified to conform with the current year presentation.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KANSAS CITY LIFE INSURANCE COMPANY
(Registrant)

By: /s/William A. Schalekamp

William A. Schalekamp,

Senior Vice President,

General Counsel & Secretary

August 11, 2006

(Date)