

KANSAS CITY LIFE INSURANCE CO

Form 8-K

March 16, 2007

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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): March 16, 2007

**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)

**64111-2565**  
(Zip Code)

Telephone Number: (816) 753-7000

**Not Applicable**

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

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:

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- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- o 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 March 16, 2007. It reflects the financial condition, in a condensed format, for Kansas City Life Insurance Company as of December 31, 2006, and was previously included in the Company's year end Form 10-K report filed on March 1, 2007.

**Message from the President, CEO and Chairman of the Board**

Kansas City Life's 2006 results reflect solid earnings and continued financial strength. Net income increased 2% to \$36.9 million for the year, and earnings per share improved to \$3.11 from \$3.03 in 2005. The growth in earnings primarily stemmed from reduced benefit costs and improved net investment income. Net income and earnings per share for the fourth quarter were \$10.1 million and \$0.86, respectively.

The Company continues to emphasize the growth of its individual life insurance business. Kansas City Life's commitment to growing this business has resulted in improved recruiting of new general agents and agents in its Individual Insurance Segment. In addition to growing sales through the Company's traditional general agency distribution system, Kansas City Life was pleased to begin a new relationship in 2006 with American Republic Insurance Company. These agents are now afforded the opportunity to provide Kansas City Life products to their clients. Kansas City Life believes that life insurance is unequalled as a means of providing protection and is dedicated to promoting the sale of life insurance at a reasonable cost to meet the needs of individuals and their families.

Renewal premiums increased 1% for the year, but new premiums declined primarily due to lower sales of immediate annuities. Renewal deposits declined due to lower receipts of fixed deferred and variable annuities, while new universal life and variable universal life deposits grew 1% and 7%, respectively, in 2006.

The Company benefited from lower investment expenses and \$5.6 million in net realized investment gains for the year. In spite of slightly higher interest rates during 2006, the investment environment remains challenging. However, the Company continues to benefit from a diversified mix of high-quality investments.

Total benefit costs declined by \$5.9 million or 2% in 2006 versus the prior year. This improvement was net of a \$6.2 million or 5% increase in death benefits paid. Partially offsetting the increase in death benefits was the favorable impact of reinsurance from insurers with whom the Company cedes mortality risk. Interest credited to policyholder account balances declined which also helped lower total benefit costs.

The Company has recorded steady earnings in recent years and added significantly to its capital position. Based upon the Company's good earnings experience and strong balance sheet, the Board of Directors recognized the opportunity to reward shareholders at a meeting on January 29, 2007, as two dividends were declared. Consistent with recent quarters, a dividend of \$0.27 per share was declared. In addition, the Board of Directors declared a special dividend of \$2.00 per share. Both dividends were paid on February 13, 2007 to shareholders of record as of February 8, 2007.

The Company has long been committed to providing present and future financial security to its policyholders and shareholders. The Company has maintained this position in a highly competitive industry for 111 years through superior relationships, an array of competitive products, solid earnings and a strong capital position. Kansas City Life provides Security Assured, a commitment and a promise that has been developed, honed and guarded over the years. This promise is the basis for both the Company's rich tradition and commitment to growth and success in the future. Kansas City Life looks forward to the continued opportunity to serve you in 2007.



**Consolidated**  
**Balance Sheets**  
(Thousands)

|                                     | December 31  |              |
|-------------------------------------|--------------|--------------|
|                                     | <u>2006</u>  | <u>2005</u>  |
| <b>Assets</b>                       |              |              |
| Investments:                        |              |              |
| Fixed maturity securities available |              |              |
| for sale, at fair value             | \$ 2,719,439 | \$ 2,865,476 |
| Equity securities available         |              |              |
| for sale, at fair value             | 52,351       | 52,775       |
| Mortgage loans                      | 472,019      | 458,668      |
| Short-term investments              | 41,037       | 46,383       |
| Other investments                   | 210,173      | 185,137      |
| Total investments                   | 3,495,019    | 3,608,439    |
| Cash                                | 2,660        | 10,985       |
| Deferred acquisition costs          | 220,595      | 226,963      |
| Value of business acquired          | 82,769       | 89,505       |
| Other assets                        | 258,630      | 254,620      |
| Separate account assets             | 400,749      | 367,860      |
| Total assets                        | \$ 4,460,422 | \$ 4,558,372 |
| <b>Liabilities</b>                  |              |              |
| Future policy benefits              | \$ 854,447   | \$ 860,284   |
| Policyholder account balances       | 2,191,105    | 2,278,418    |
| Notes payable                       | 14,700       | 27,282       |
| Income taxes                        | 35,319       | 40,155       |
| Other liabilities                   | 279,798      | 304,154      |
| Separate account liabilities        | 400,749      | 367,860      |
| Total liabilities                   | 3,776,118    | 3,878,153    |
| <b>Stockholders' equity</b>         |              |              |
| Common stock                        | 23,121       | 23,121       |
| Additional paid in capital          | 25,852       | 25,063       |
| Retained earnings                   | 780,892      | 756,807      |
| Accumulated other                   |              |              |
| comprehensive loss                  | (25,118)     | (8,406)      |
| Less treasury stock                 | (120,443)    | (116,366)    |
| Total stockholders' equity          | 684,304      | 680,219      |
| Total liabilities and equity        | \$ 4,460,422 | \$ 4,558,372 |

See accompanying Notes to Consolidated Financial Statements.

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

|  | Quarter ended<br>December 31 |             | Year ended<br>December 31 |             |
|--|------------------------------|-------------|---------------------------|-------------|
|  | <u>2006</u>                  | <u>2005</u> | <u>2006</u>               | <u>2005</u> |
| <b>Revenues</b>  |                              |             |                           |             |
| Insurance revenues:  |                              |             |                           |             |
| Premiums   | \$ 44,465                    | \$ 45,023   | \$ 175,637                | \$ 179,347  |
| Contract charges   | 28,279                       | 29,323      | 114,496                   | 114,745     |
| Reinsurance ceded  | (14,357)                     | (14,293)    | (54,979)                  | (55,597)    |
| Total insurance revenues   | 58,387                       | 60,053      | 235,154                   | 238,495     |
| Investment revenues:   |                              |             |                           |             |
| Net investment income  | 49,549                       | 49,616      | 196,280                   | 194,608     |
| Realized investment gains  | 3,224                        | 5,250       | 5,621                     | 6,113       |
| Other revenues   | 2,514                        | 2,479       | 11,349                    | 10,312      |
| Total revenues   | 113,674                      | 117,398     | 448,404                   | 449,528     |
| <b>Benefits and expenses</b>   |                              |             |                           |             |
| Policyholder benefits  | 41,663                       | 43,752      | 167,795                   | 169,693     |
| Interest credited to policyholder account balances                           | 23,628                       | 24,492      | 94,648                    | 98,637      |
| Amortization of deferred acquisition costs<br>and value of business acquired | 8,696                        | 10,910      | 41,634                    | 42,429      |
| Operating expenses   | 25,895                       | 23,334      | 93,080                    | 89,144      |
| Total benefits and expenses  | 99,882                       | 102,488     | 397,157                   | 399,903     |
| Income before income tax expense   | 13,792                       | 14,910      | 51,247                    | 49,625      |
| Income tax expense   | 3,698                        | 4,013       | 14,329                    | 13,441      |
| <b>Net income</b>  | \$ 10,094                    | \$ 10,897   | \$ 36,918                 | \$ 36,184   |
| <b>Per common share:</b>   |                              |             |                           |             |
| Net income, basic and diluted  | \$ 0.86                      | \$ 0.90     | \$ 3.11                   | \$ 3.03     |
| Cash dividends   | \$ 0.27                      | \$ 0.27     | \$ 1.08                   | \$ 1.08     |

*See accompanying Notes to Consolidated Financial Statements.*

**Consolidated****Statements of Cash Flows**

(Thousands)

|   | Year ended<br>December 31 |             |
|---|---------------------------|-------------|
|   | <u>2006</u>               | <u>2005</u> |
| <b>Operating activities</b>                               |                           |             |
| Net cash provided   | \$ 23,936                 | \$ 44,365   |
| <b>Investing activities</b>                               |                           |             |
| Purchases of investments:                                 |                           |             |
| Fixed maturity securities                                 | (274,662)                 | (541,305)   |
| Equity securities   | (10,761)                  | (5,690)     |
| Mortgage loans  | (72,569)                  | (109,561)   |
| Other investment assets                                   | (46,142)                  | (17,823)    |
| Sales of investments:                                     |                           |             |
| Fixed maturity securities                                 | 94,717                    | 175,317     |
| Equity securities   | 5,078                     | 6,296       |
| Other investment assets                                   | 28,994                    | 62,322      |
| Maturities and principal paydowns<br>of other investments | 345,305                   | 485,806     |
| Net additions to property and<br>equipment                | (2,028)                   | (1,061)     |
| Net cash provided   | 67,932                    | 54,301      |
| <b>Financing activities</b>                               |                           |             |
| Proceeds from borrowings                                  | 67,001                    | 45,315      |
| Repayment of borrowings                                   | (79,583)                  | (110,252)   |
| Deposits on policyholder account<br>balances              | 218,548                   | 265,219     |
| Withdrawals from policyholder<br>account balances         | (294,252)                 | (270,521)   |
| Net transfers from separate accounts                      | 16,451                    | 5,213       |
| Change in other deposits                                  | (12,237)                  | (12,577)    |
| Cash dividends to stockholders                            | (12,833)                  | (12,876)    |
| Net acquisition of treasury stock                         | (3,288)                   | (1,348)     |
| Net cash used   | (100,193)                 | (91,827)    |
| Increase (decrease) in cash                               | (8,325)                   | 6,839       |
| Cash at beginning of year                                 | 10,985                    | 4,146       |
| Cash at end of year                                       | \$ 2,660                  | \$ 10,985   |

See accompanying Notes to Consolidated Financial Statements.



*Notes*

Comprehensive income (loss) was \$6.6 million and (\$3.1) million for the fourth quarter of 2006 and 2005; and \$20.2 million and \$1.5 million for the twelve months ended December 31, 2006 and 2005, respectively. This varies from net income largely due to unrealized gains or losses on investments and changes in pension liability.

Income per common share is based upon the weighted average number of shares outstanding during the year, 11,883,830 shares (2005 - 11,923,831).

These financial statements should be read in conjunction with the Company's Form 10-K. Please refer to the Company's Form 10-K as filed with the U.S. Securities and Exchange Commission at [www.kclife.com](http://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

March 16, 2007

(Date)