

KANSAS CITY LIFE INSURANCE CO

Form 8-K

March 20, 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): March 20, 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 March 20, 2006. It reflects the financial condition, in a condensed format, for Kansas City Life Insurance Company as of December 31, 2005, and was previously included in the Company's year end Form 10-K report filed on March 1, 2006.

Message from the President and CEO

Kansas City Life Insurance Company recorded fourth quarter 2005 net income of \$10.9 million or \$0.90 per share and net income for the year of \$36.2 million or \$3.03 per share. Net income for the fourth quarter and twelve months of 2004 were \$33.0 million and \$57.7 million, respectively. The fourth quarter 2004 results included a large realized investment gain from the sale of a significant real estate holding that generated approximately \$40.0 million in realized investment gains. Excluding realized investment gains after tax, net income for the fourth quarter of 2005 increased 25% over the same quarter in the prior year, and net income for the year increased 16% over 2004.

Contributing to the favorable 2005 results were decreases in benefits and expenses, including the result of realizing savings from the final integration of operations from the acquisition of GuideOne Life in 2003. Policyholder benefits decreased \$0.5 million for the quarter and \$8.9 million for the year, primarily due to reduced death benefits and accident and health benefits. Operating expenses declined \$4.2 million for the quarter and \$6.0 million for the year.

Partially offsetting the improvements in benefits and expenses was a decrease in insurance and investment revenues. Total insurance revenues increased 1% in the fourth quarter but declined 4% for the year. Realized investment gains totaled \$6.1 million in 2005, but this was far less than the \$45.9 million recorded in 2004 due to the large real estate sale completed a year ago. Net investment income for the fourth quarter declined 1% and declined 2% for the year, reflecting a slight decline in both total investment assets and investment yields.

The Company has continued to emphasize growth of individual life insurance sales through recruiting of new general agents and improved production from traditional agent representatives. In addition, the Company has always been committed to providing security to its policyholders and long-term growth opportunities to its agents, associates and shareholders. Since 1895, the Company has continued to emphasize the same values and commitment to providing life insurance and other protection products that offer present and future financial security to policyholders.

**Consolidated
Balance Sheets**

(Thousands)

| | December 31 | |
|--|------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| Assets | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | \$ 2,865,476 | \$ 2,962,114 |
| Equity securities available for sale, at fair value | 52,775 | 63,099 |
| Mortgage loans | 458,668 | 430,632 |
| Short-term investments | 46,383 | 67,980 |
| Other investments | 185,137 | 202,146 |
| Total investments | 3,608,439 | 3,725,971 |
| Cash | 10,985 | 4,147 |
| Deferred acquisition costs | 226,963 | 229,712 |
| Value of business acquired | 89,505 | 96,853 |
| Other assets | 255,267 | 255,480 |
| Separate account assets | 367,860 | 353,983 |
| Total assets | \$ 4,559,019 | \$ 4,666,146 |
| Liabilities | | |
| Future policy benefits | \$ 860,284 | \$ 863,754 |
| Policyholder account balances | 2,278,418 | 2,295,783 |
| Notes payable | 27,282 | 92,220 |
| Income taxes | 40,155 | 53,703 |
| Other liabilities | 304,801 | 313,807 |
| Separate account liabilities | 367,860 | 353,983 |
| Total liabilities | 3,878,800 | 3,973,250 |
| Stockholders equity | | |
| Common stock | 23,121 | 23,121 |
| Additional paid in capital | 25,063 | 24,279 |
| Retained earnings | 756,807 | 733,499 |
| Accumulated other comprehensive income (loss) | (8,406) | 26,231 |
| Less treasury stock | (116,366) | (114,234) |
| Total stockholders equity | 680,219 | 692,896 |
| Total liabilities and equity | \$ 4,559,019 | \$ 4,666,146 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Quarter ended December 31 | | Year ended December 31 | |
|---|------------------------------|-------------|---------------------------|-------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Revenues | | | | |
| Insurance revenues: | | | | |
| Premiums | \$ 45,155 | \$ 45,302 | \$ 179,891 | \$ 188,881 |
| Contract charges | 29,323 | 28,383 | 114,745 | 115,710 |
| Reinsurance ceded | (14,293) | (13,828) | (55,597) | (54,490) |
| Total insurance revenues | 60,185 | 59,857 | 239,039 | 250,101 |
| Investment revenues: | | | | |
| Net investment income | 49,617 | 50,299 | 194,608 | 197,975 |
| Realized investment gains | 5,250 | 41,593 | 6,113 | 45,929 |
| Other revenues | 2,479 | 2,033 | 10,312 | 8,468 |
| Total revenues | 117,531 | 153,782 | 450,072 | 502,473 |
| Benefits and expenses | | | | |
| Policyholder benefits | 44,654 | 45,186 | 176,209 | 185,155 |
| Interest credited to policyholder account balances | 23,589 | 23,294 | 92,121 | 96,497 |
| Amortization of deferred acquisition costs and value of business acquired | 13,137 | 10,754 | 42,429 | 43,477 |
| Operating expenses | 21,241 | 25,430 | 89,688 | 95,661 |
| Total benefits and expenses | 102,621 | 104,664 | 400,447 | 420,790 |
| Income before income tax expense | 14,910 | 49,118 | 49,625 | 81,683 |
| Income tax expense | 4,013 | 16,081 | 13,441 | 23,996 |
| Net income | \$ 10,897 | \$ 33,037 | \$ 36,184 | \$ 57,687 |
| Per common share: | | | | |
| Net income, basic and diluted | \$ 0.90 | \$ 2.76 | \$ 3.03 | \$ 4.83 |
| 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 December 31 | |
|---|---------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Operating activities | | |
| Net cash provided | \$ 50,050 | \$ 35,733 |
| Investing activities | | |
| Purchases of investments: | | |
| Fixed maturity securities | (548,979) | (726,948) |
| Equity securities | (5,690) | (6,957) |
| Mortgage loans | (109,561) | (72,265) |
| Other investment assets | (17,823) | (9,466) |
| Sales of investments: | | |
| Fixed maturity securities | 175,317 | 159,095 |
| Equity securities | 6,296 | 4,730 |
| Other investment assets | 62,322 | 81,809 |
| Maturities and principal paydowns of other investments | 485,806 | 523,428 |
| Net additions to property and equipment | (1,061) | (1,686) |
| Net cash provided (used) | 46,627 | (48,260) |
| Financing activities | | |
| Proceeds from borrowings | 45,315 | 13,575 |
| Repayment of borrowings | (110,252) | (55,025) |
| Deposits on policyholder account balances | 242,613 | 271,133 |
| Withdrawals from policyholder account balances | (245,927) | (205,749) |
| Net transfers to separate accounts | 5,213 | (12,009) |
| Change in other deposits | (12,577) | (3,239) |
| Cash dividends to stockholders | (12,876) | (12,988) |
| Net disposition (acquisition) of treasury stock | (1,348) | 946 |
| Net cash used | (89,839) | (3,356) |
| Increase (decrease) in cash | 6,838 | (15,883) |
| Cash at beginning of year | 4,147 | 20,029 |
| Cash at end of year | \$ 10,985 | \$ 4,146 |

See accompanying Notes to Consolidated Financial Statements.

Notes

Comprehensive income (loss) was (\$3,107) and \$30,548 for the fourth quarter respectively.

of 2005 and 2004; and \$1,547 and \$60,500 for the twelve months ended December 31, 2005 and 2004, respectively. This varies from net income largely due to unrealized gains or losses on investments and changes in the minimum pension liability.

Income per common share is based upon the weighted average number of shares outstanding during the year, 11,923,831 shares (11,932,109 shares - 2004).

The Company's audited consolidated financial statements have been included in the Company's Form 10-K filed with the U.S. Securities and Exchange Commission. Also, the Company's audited consolidated financial statements will be included in the Annual Report to Stockholders, which will be mailed in late March.

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 20, 2006

(Date)