

KANSAS CITY LIFE INSURANCE CO

Form 8-K

May 08, 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): May 8, 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))

Page 1 of 7

Item 2.02 Results of Operations and Financial Condition.

Included below is a release of financial information mailed to stockholders on May 8, 2007. It reflects the financial condition, in a condensed format, for Kansas City Life Insurance Company as of March 31, 2007, and was previously included in the Company's first quarter Form 10-Q report filed on May 4, 2007.

Message from the President, CEO and Chairman of the Board

Kansas City Life Insurance Company recorded a 16% increase in net income for the first quarter of 2007. The Company earned \$8.3 million or \$0.70 per share in the first quarter of 2007, an increase from \$7.2 million or \$0.60 per share one year earlier. This increase was primarily due to \$5.1 million in net realized investment gains, compared with a net realized investment loss of \$0.3 million in 2006.

Insurance revenues declined 2% for the period, as reduced premiums and contract charges from closed blocks of annuity and life insurance business outpaced new sales in certain product lines. Premiums from accident and health products increased 2%, including a 12% increase in new group dental sales. New sales of deposit products, including universal life, fixed deferred annuity and variable life and annuity products, increased 9% versus the prior year. The new deposits included an increase in universal life and variable universal life sales of 14% and 19%, respectively.

Net investment income declined \$1.8 million or 4% for the period, due to a combination of increased investment expenses and reduced investment assets. The net realized investment gains were largely the result of sales of real estate and the completion of the sale of Generations Bank. The Company has benefited from the rise in commercial real estate values in recent years through selected sales of real estate, and the Company continues to actively invest in this asset class.

Policyholder benefits and interest credited to policyholder account balances increased \$0.7 million for the first quarter. This increase was primarily the result of increased death benefits paid. Income tax expense increased \$1.3 million due to increased earnings and a decline in the Company's tax credits from affordable housing investments.

A highlight of the Company's first quarter in 2007 was the payment of a special dividend of \$2.00 per share to shareholders as of February 13, 2007. The payment of this special dividend, in addition to continuing the quarterly dividend of \$0.27 per share, was supported by the Company's steady earnings and strong balance sheet. The Company's increased earnings for the first quarter of 2007 provides further evidence of Kansas City Life's resources and capacity for growth. We will continue to focus the Company's attention and resources on growing the life insurance business.

Additionally, the Kansas City Life Board of Directors approved a quarterly dividend of \$0.27 per share to be paid May 15, 2007, to shareholders of record as of May 10, 2007.

**Consolidated
Balance Sheets**

(Thousands)

| | March 31 <u>2007</u> (Unaudited) | December 31 <u>2006</u> |
|--|--|----------------------------|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | \$ 2,685,457 | \$ 2,719,439 |
| Equity securities available for sale, at fair value | 53,419 | 52,351 |
| Mortgage loans | 456,346 | 472,019 |
| Short-term investments | 42,664 | 41,037 |
| Other investments | 195,473 | 208,925 |
| Total investments | 3,433,359 | 3,493,771 |
| Cash | 13,874 | 3,908 |
| Deferred acquisition costs | 217,123 | 220,595 |
| Value of business acquired | 80,742 | 82,769 |
| Other assets | 259,081 | 258,630 |
| Separate account assets | 404,210 | 400,749 |
| Total assets | \$ 4,408,389 | \$ 4,460,422 |
| Liabilities | | |
| Future policy benefits | \$ 852,856 | \$ 854,447 |
| Policyholder account balances | 2,161,459 | 2,191,105 |
| Notes payable | 14,700 | 14,700 |
| Income taxes | 40,336 | 35,319 |
| Other liabilities | 261,179 | 279,798 |
| Separate account liabilities | 404,210 | 400,749 |
| Total liabilities | 3,734,740 | 3,776,118 |
| Stockholders equity | | |
| Common stock | 23,121 | 23,121 |
| Additional paid in capital | 27,353 | 25,852 |
| Retained earnings | 762,344 | 780,892 |
| Accumulated other comprehensive loss | (17,485) | (25,118) |
| Less treasury stock | (121,684) | (120,443) |
| Total stockholders equity | 673,649 | 684,304 |
| Total liabilities and equity | \$ 4,408,389 | \$ 4,460,422 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Quarter ended March 31 | |
|--|---------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Revenues | | |
| Insurance revenues: | | |
| Premiums | \$ 42,648 | \$ 43,620 |
| Contract charges | 28,703 | 29,333 |
| Reinsurance ceded | (12,944) | (13,145) |
| Total insurance revenues | 58,407 | 59,808 |
| Investment revenues: | | |
| Net investment income | 47,084 | 48,913 |
| Realized investment gains (losses) | 5,124 | (265) |
| Other revenues | 2,417 | 2,528 |
| Total revenues | 113,032 | 110,984 |
| Benefits and expenses | | |
| Policyholder benefits | 43,997 | 42,484 |
| Interest credited to policyholder account balances | 22,773 | 23,558 |
| Amortization of deferred acquisition costs and value of business acquired | 11,191 | 11,449 |
| Operating expenses | 22,710 | 23,544 |
| Total benefits and expenses | 100,671 | 101,035 |
| Income before income tax expense | 12,361 | 9,949 |
| Income tax expense | 4,055 | 2,760 |
| Net income | \$ 8,306 | \$ 7,189 |
| Per common share: | | |
| Net income, basic and diluted | \$ 0.70 | \$ 0.60 |
| Cash dividends | \$ 2.27 | \$ 0.27 |

See accompanying Notes to Consolidated Financial Statements.

*Consolidated***Statements of Cash Flows (Unaudited)***(Thousands)*

| | Quarter ended March 31 | |
|--|---------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Operating activities | | |
| Net cash provided | \$ 4,733 | \$ 1,623 |
| Investing activities | | |
| Purchases of investments: | | |
| Fixed maturity securities | (85,920) | (76,949) |
| Equity securities | (771) | (1,749) |
| Mortgage loans | (16,326) | (20,545) |
| Other investment assets | (1,235) | (42,875) |
| Sales of investments: | | |
| Fixed maturity securities | 9,126 | 36,797 |
| Equity securities | - | 161 |
| Other investment assets | 12,995 | 36,195 |
| Maturities and principal paydowns | | |
| of investments | 114,372 | 86,951 |
| Net additions to property and equipment | (507) | (113) |
| Proceeds from sale of non insurance affiliate | 10,104 | - |
| Net cash provided | 41,838 | 17,873 |
| Financing activities | | |
| Proceeds from borrowings | 625 | 12,681 |
| Repayment of borrowings | (625) | (14,595) |
| Deposits on policyholder account | | |
| balances | 56,705 | 55,552 |
| Withdrawals from policyholder | | |
| account balances | (85,541) | (72,896) |
| Net transfers from separate accounts | 3,283 | 5,687 |
| Change in other deposits | 15,287 | (4,052) |
| Cash dividends to stockholders | (26,599) | (3,213) |
| Net disposition (acquisition) of treasury stock | 260 | (1,407) |
| Net cash used | (36,605) | (22,243) |
| Increase (decrease) in cash | 9,966 | (2,747) |
| Cash at beginning of year | 3,908 | 12,099 |
| Cash at end of period | \$ 13,874 | \$ 9,352 |

See accompanying Notes to Consolidated Financial Statements.

Notes

Comprehensive income (loss) was \$15.9 million and (\$21.5) million for the first quarter of 2007 and 2006, 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 during the quarter, 11,856,385 shares (2006 - 11,908,863 shares).

These interim financial statements are unaudited but, in management's opinion, include all adjustments necessary for a fair presentation of the results. Please refer to the Company's Form 10-Q and the Company's Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission 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/R. Philip Bixby

R. Philip Bixby

President, Chief Executive Officer

& Chairman of the Board

May 8, 2007

(Date)