

KANSAS CITY LIFE INSURANCE CO
Form 8-K
August 08, 2008
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 8, 2008

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)

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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))

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Item 2.02 – Results of Operations and Financial Condition.

Included below is a release of financial information mailed to stockholders on August 8, 2008. It reflects the financial condition, in a condensed format, for Kansas City Life Insurance Company as of June 30, 2008, and was previously included in the Company's second quarter Form 10-Q report filed on July 31, 2008.

Message from the President, CEO and Chairman of the Board

Kansas City Life Insurance Company recorded net income of \$1.7 million or \$0.14 per share for the second quarter ended June 30, 2008, a decrease of \$10.1 million or \$0.86 per share from the prior year. The primary factor in this decline was \$8.4 million in net realized investment losses. The Company earned net income of \$5.3 million for the six months or \$0.45 per share, a decline of \$14.8 million or \$1.25 per share. The reduced net income for the six-month period was primarily due to the realized investment losses in the second quarter in 2008, compared to \$5.2 million in net realized investment gains in the first half of the prior year.

The net realized investment losses in the quarter were largely the result of other-than-temporary impairment write-downs in debt securities that have been affected by leveraged buyouts, problems in the residential mortgage market and structured securities that were indirectly affected by the residential mortgage market. The value of these securities and the financial health of certain issuers have been greatly impacted by the broad market widening of credit spreads, fears of illiquidity and changing expectations of consumer spending patterns in the future.

Declining interest rates during most of the past twelve months also contributed to a decrease in investment revenues. Net investment income declined 6% for the second quarter and 4% for the six months, due to both lower portfolio yields and reduced investment assets.

Sales results for the second quarter reflected continued improvement, despite the difficult market conditions. Total new premiums increased 16% while total new deposits were even with the prior year. New premiums increased in most product lines, including a 29% increase in immediate annuity premiums, a 62% increase in group life insurance sales, an 8% increase in new individual life sales and a 6% increase in new group accident and health sales, primarily from the dental product line.

The Company's sales results were also positive for the six-month period. Total new premiums increased 23% on the strength of a 74% increase in individual annuities, and new group life sales improved 63%. In addition, new individual life premiums increased 7% and new group accident and health sales, predominantly from the group dental product line, increased 1%. The sales results for the six months on new deposits were mixed. New universal life deposits decreased 13%, new variable sales increased 13% on the strength of new variable annuities, while new fixed deferred annuity sales declined 5%.

Policyholder benefits increased due to increased mortality in both the second quarter and six months compared with the prior year. Total policyholder benefits increased 11% for the second quarter and 7% for the six months. However, partially offsetting this increase, interest credited to policyholder account balances declined 5% in both the second quarter and six months.

The amortization of deferred acquisition costs (DAC) and the value of business acquired (VOBA) increased slightly for both the second quarter and six months. The Company's unlocking reduced its amortization assumptions in the second quarter and the six months of 2008 and 2007 to reflect current experience. Unlocking resulted in a decline in amortization of \$2.8 million and \$2.3 million, respectively. Finally, operating expenses declined 6% for the second quarter, primarily reflecting reduced employee benefits, but increased 1% for the six months.

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On July 28, 2008, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share, payable on August 12, 2008 to stockholders of record on August 7, 2008.

The Company's focus and commitment to increasing sales of life insurance products is yielding positive results, in spite of the continuing economic downturn. The recruitment and retention of quality general agents and agents, along with the introduction of new products and enhancements of existing products are key to the Company's achievement of positive sales growth. Kansas City Life's financial strength and sound business practices have allowed the Company to weather, and even prosper, through many economic cycles in its 113-year history, and we look forward to the opportunities that lay ahead.

**Consolidated
Balance Sheets**

(Thousands)

| | June 30 <u>2008</u> | December 31 <u>2007</u> |
|--|------------------------|----------------------------|
| | <i>(Unaudited)</i> | |
| Assets | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | \$ 2,517,393 | \$ 2,631,073 |
| Equity securities available for sale, at fair value | 58,642 | 59,149 |
| Mortgage loans | 447,057 | 450,148 |
| Short-term investments | 43,382 | 36,522 |
| Other investments | 179,303 | 188,852 |
| Total investments | 3,245,777 | 3,365,744 |
| Cash | 6,062 | 12,158 |
| Deferred acquisition costs | 219,831 | 217,512 |
| Value of business acquired | 71,246 | 73,517 |
| Other assets | 259,460 | 262,784 |
| Separate account assets | 373,586 | 420,393 |
| Total assets | \$ 4,175,962 | \$ 4,352,108 |
| Liabilities | | |
| Future policy benefits | \$ 852,234 | \$ 851,277 |
| Policyholder account balances | 2,051,138 | 2,087,965 |
| Notes payable | 6,805 | 10,400 |
| Income taxes | 5,837 | 40,300 |
| Other liabilities | 264,410 | 257,372 |
| Separate account liabilities | 373,586 | 420,393 |
| Total liabilities | 3,554,010 | 3,667,707 |
| Stockholders' equity | | |
| Common stock | 23,121 | 23,121 |
| Additional paid in capital | 33,020 | 30,244 |
| Retained earnings | 779,124 | 780,133 |
| Accumulated other comprehensive loss | (71,161) | (19,811) |
| Treasury stock | (142,152) | (129,286) |
| Total stockholders' equity | 621,952 | 684,401 |
| Total liabilities and equity | \$ 4,175,962 | \$ 4,352,108 |

Consolidated
Statements of Income (Unaudited)

(Thousands, except share data)

| | Quarter ended | | Six Months ended | |
|---|---------------|-------------|------------------|-------------|
| | June 30 | | June 30 | |
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Revenues | | | | |
| Insurance revenues: | | | | |
| Premiums | \$ 45,462 | \$ 45,212 | \$ 89,949 | \$ 87,980 |
| Contract charges | 26,527 | 26,477 | 53,827 | 55,180 |
| Reinsurance ceded | (13,546) | (14,270) | (26,206) | (27,339) |
| Total insurance revenues | 58,443 | 57,419 | 117,570 | 115,821 |
| Investment revenues: | | | | |
| Net investment income | 45,616 | 48,671 | 92,079 | 95,755 |
| Realized investment gains (losses) | (8,409) | 38 | (8,289) | 5,162 |
| Other revenues | 2,639 | 3,757 | 5,248 | 6,174 |
| Total revenues | 98,289 | 109,885 | 206,608 | 222,912 |
| Benefits and expenses | | | | |
| Policyholder benefits | 45,586 | 40,994 | 91,072 | 84,986 |
| Interest credited to policyholder account balances | 21,674 | 22,732 | 43,377 | 45,505 |
| Amortization of deferred acquisition costs and value of business acquired | 7,625 | 7,123 | 18,737 | 18,499 |
| Operating expenses | 21,164 | 22,416 | 45,560 | 45,126 |
| Total benefits and expenses | 96,049 | 93,265 | 198,746 | 194,116 |
| Income before income tax expense | 2,240 | 16,620 | 7,862 | 28,796 |
| Income tax expense | 563 | 4,808 | 2,583 | 8,678 |
| Net income | \$ 1,677 | \$ 11,812 | \$ 5,279 | \$ 20,118 |
| Per common share: | | | | |
| Net income, basic and diluted | \$ 0.14 | \$ 1.00 | \$ 0.45 | \$ 1.70 |
| Cash dividends | \$ 0.27 | \$ 0.27 | \$ 0.54 | \$ 2.54 |

Consolidated
Statements of Cash Flows (Unaudited)
(Thousands)

| | Six Months ended | |
|---|------------------|-------------|
| | June 30 | |
| | <u>2008</u> | <u>2007</u> |
| Operating activities | | |
| Net cash provided (used) | \$ (1,791) | \$ 15,106 |
| Investing activities | | |
| Purchases of investments: | | |
| Fixed maturity securities | (143,570) | (159,075) |
| Equity securities | (8,204) | (1,854) |
| Mortgage loans | (21,688) | (35,023) |
| Real estate | (13,724) | (846) |
| Other investment assets | (4,270) | — |
| Sales of investments: | | |
| Fixed maturity securities | 21,116 | 13,964 |
| Equity securities | 4,261 | 3,092 |
| Other investment assets | 20,729 | 39,796 |
| Maturities and principal paydowns of investments | 175,664 | 188,382 |
| Net (additions) dispositions to property and equipment | 96 | (581) |
| Proceeds from sale of non insurance affiliate | — | 10,104 |
| Net cash provided | 30,410 | 57,959 |
| Financing activities | | |
| Net repayment of borrowings | (3,595) | (2,000) |
| Deposits on policyholder account balances | 98,379 | 103,230 |
| Withdrawals from policyholder account balances | (130,819) | (155,268) |
| Net transfers from separate accounts | 10,042 | 8,811 |
| Change in other deposits | 7,657 | 13,224 |
| Cash dividends to stockholders | (6,288) | (30,074) |
| Net acquisition of treasury stock | (10,091) | (337) |
| Net cash used | (34,715) | (62,414) |
| Increase (decrease) in cash | (6,096) | 10,651 |
| Cash at beginning of year | 12,158 | 3,908 |
| Cash at end of period | \$ 6,062 | \$ 14,559 |

Notes

- 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.
- Comprehensive loss was \$34.9 million and \$17.0 million for the second quarters and \$46.1 million and \$1.0 million for the six months ended June 30, 2008 and 2007, respectively. This varies from net income largely due to unrealized gains or losses on investments.
- Net income per common share was based upon the average number of shares outstanding of 11,585,643 and 11,858,378 for the second quarters and 11,649,642 and 11,856,947 for the six months ended June 30, 2008 and 2007, respectively.
- Cash dividends include a one-time special dividend of \$2.00 per share, paid on February 13, 2007.
- Certain immaterial amounts in prior years have been reclassified to conform with the current year presentation.

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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 8, 2008

(Date)