

KANSAS CITY LIFE INSURANCE CO

Form 8-K

May 15, 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): May 15, 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 May 15, 2006. It reflects the financial condition, in a condensed format, for Kansas City Life Insurance Company as of March 31, 2006, and was previously included in the Company's first quarter Form 10-Q report filed on May 5, 2006.

Message from the President, CEO and Chairman of the Board

Kansas City Life Insurance Company recorded net income of \$7.2 million or \$0.60 per share in the first quarter of 2006, a 10% decline compared with \$8.0 million or \$0.67 per share in 2005. The decline was primarily attributable to a change in realized investment gains and losses of \$1.6 million. In spite of the change in earnings, the first quarter produced several positive results, including increased new individual life insurance premiums of 13% and new universal life deposits of 10%. In addition, total benefits and expenses declined 2% in the comparison of first quarter 2006 to the prior year.

Life insurance sales results in the first quarter were positive, reflecting strong growth in the individual life products. In addition to the increase in new premiums on individual life products and new universal life deposits, new variable universal life deposits increased 17% in the first quarter and new group accident and health premiums increased 15%. However, total premiums declined 6% primarily due to lower sales of new immediate annuity premiums. In addition, new deposits on fixed deferred annuities and new variable annuities declined as a result of changes in the financial markets and the Company's continued focus on generating a balance of life insurance and annuity business.

Net investment income increased slightly, as investment yields improved in the first quarter of 2006 versus the first quarter of 2005. However, total investment revenues declined 3%, primarily due to a \$0.3 million realized investment loss in the first quarter 2006 compared with a \$1.3 million realized investment gain in 2005.

Policyholder benefits and interest credited to policyholder account balances decreased \$2.9 million for the first quarter. This decline was primarily the result of lower interest crediting costs and reduced reserves for future policy benefits.

The Company's commitment to growing its core life insurance business resulted in a positive start in 2006. The success in new life insurance sales has been the result of improved production from the Company's traditionally strong agencies, the successful contributions of new agencies, continued improvements to competitive products and the ongoing commitment of the Company's associates to provide outstanding service to agents and policyholders. Through continued attention to quality and efficient delivery in all aspects of its business, the Company will continue to pursue its vision of providing Security Assured.

Additionally, the Kansas City Life Board of Directors approved a quarterly dividend of \$0.27 per share to be paid May 16, 2006, to shareholders of record as of May 11, 2006.

**Consolidated
Balance Sheets**

(Thousands)

| | March 31 <u>2006</u> (Unaudited) | December 31 <u>2005</u> |
|----------------------------------------------------------------|----------------------------------------|----------------------------|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | \$ 2,769,411 | \$ 2,865,476 |
| Equity securities available for sale, at fair value | 53,800 | 52,775 |
| Mortgage loans | 471,265 | 458,668 |
| Short-term investments | 13,122 | 46,383 |
| Other investments | 224,657 | 185,137 |
| Total investments | 3,532,255 | 3,608,439 |
| Cash | 8,255 | 10,985 |
| Deferred acquisition costs | 225,800 | 226,963 |
| Value of business acquired | 88,734 | 89,505 |
| Other assets | 262,566 | 254,620 |
| Separate account assets | 382,124 | 367,860 |
| Total assets | \$ 4,499,734 | \$ 4,558,372 |
| Liabilities | | |
| Future policy benefits | \$ 858,249 | \$ 860,284 |
| Policyholder account balances | 2,250,829 | 2,278,418 |
| Notes payable | 25,368 | 27,282 |
| Income taxes | 23,727 | 40,155 |
| Other liabilities | 305,307 | 304,154 |
| Separate account liabilities | 382,124 | 367,860 |
| Total liabilities | 3,845,604 | 3,878,153 |
| Stockholders equity | | |
| Common stock | 23,121 | 23,121 |
| Additional paid in capital | 25,214 | 25,063 |
| Retained earnings | 760,782 | 756,807 |
| Accumulated other comprehensive loss | (37,063) | (8,406) |
| Less treasury stock | (117,924) | (116,366) |
| Total stockholders equity | 654,130 | 680,219 |
| Total liabilities and equity | \$ 4,499,734 | \$ 4,558,372 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Quarter ended March 31 | | |
|----------------------------------|----------------------------------------------------|-------------|-----------|
| | <u>2006</u> | <u>2005</u> | |
| Revenues | | | |
| Insurance revenues: | | | |
| | Premiums | \$ 43,764 | \$ 46,425 |
| | Contract charges | 29,333 | 28,762 |
| | Reinsurance ceded | (13,145) | (13,609) |
| | Total insurance revenues | 59,952 | 61,578 |
| Investment revenues: | | | |
| | Net investment income | 48,913 | 48,790 |
| | Realized investment gains (losses) | (265) | 1,335 |
| Other revenues | | 2,528 | 2,567 |
| | Total revenues | 111,128 | 114,270 |
| Benefits and expenses | | | |
| | Policyholder benefits | 44,416 | 45,724 |
| | Interest credited to policyholder account balances | 21,626 | 23,210 |
| | Amortization of deferred acquisition costs | | |
| | and value of business acquired | 11,449 | 11,334 |
| Operating expenses | | 23,688 | 23,109 |
| | Total benefits and expenses | 101,179 | 103,377 |
| Income before income tax expense | | 9,949 | 10,893 |
| Income tax expense | | 2,760 | 2,933 |
| Net income | | \$ 7,189 | \$ 7,960 |
| Per common share: | | | |
| | Net income, basic and diluted | \$ 0.60 | \$ 0.67 |
| | Cash dividends | \$ 0.27 | \$ 0.27 |

See accompanying Notes to Consolidated Financial Statements.

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

(Thousands)

| | Quarter ended March 31 | |
|-----------------------------------------------------------|---------------------------|-------------|
| | <u>2006</u> | <u>2005</u> |
| Operating activities | | |
| Net cash provided (used) | \$ (1,021) | \$ 9,386 |
| Investing activities | | |
| Purchases of investments: | | |
| Fixed maturity securities | (76,011) | (164,111) |
| Equity securities | (1,749) | (690) |
| Mortgage loans | (20,545) | (37,467) |
| Other investment assets | (42,858) | (1,932) |
| Sales of investments: | | |
| Fixed maturity securities | 36,797 | 38,656 |
| Equity securities | 161 | 701 |
| Other investment assets | 36,195 | 55,275 |
| Maturities and principal paydowns of other investments | 86,951 | 119,834 |
| Net additions to property and equipment | (113) | (292) |
| Net cash provided | 18,828 | 9,974 |
| Financing activities | | |
| Proceeds from borrowings | 12,681 | 22,263 |
| Repayment of borrowings | (14,595) | (42,204) |
| Deposits on policyholder account balances | 52,147 | 63,815 |
| Withdrawals from policyholder account balances | (67,785) | (55,667) |
| Net transfers from (to) separate accounts | 5,687 | (1,362) |
| Change in other deposits | (4,052) | 1,805 |
| Cash dividends to stockholders | (3,213) | (3,221) |
| Net acquisition of treasury stock | (1,407) | (1,197) |
| Net cash used | (20,537) | (15,768) |
| Increase (decrease) in cash | (2,730) | 3,592 |
| Cash at beginning of year | 10,985 | 4,147 |
| Cash at end of period | \$ 8,255 | \$ 7,739 |

See accompanying Notes to Consolidated Financial Statements.

Notes

Comprehensive loss was (\$21,469) and (\$14,503) respectively for 2006 and 2005, respectively. This varies from net income largely due to unrealized gains or losses on investments.

Income per common share was based upon the weighted average number of shares outstanding during the quarter, 11,908,863 shares (2005

11,928,929 shares).

These financial statements are unaudited but, in management's opinion, include all adjustments necessary for a fair presentation of the results.

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

May 15, 2006

(Date)