

KANSAS CITY LIFE INSURANCE CO

Form 8-K

August 16, 2005

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 16, 2005

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 August 16, 2005. It reflects the financial condition, in a condensed format, for Kansas City Life Insurance Company as of June 30, 2005, and was previously included in the Company's second quarter Form 10-Q report filed on August 8, 2005.

Message from the President and CEO

Kansas City Life Insurance Company recorded second quarter net income of \$8.4 million or \$0.71 per share, a 12% improvement from the prior year's \$7.5 million or \$0.63 per share. The increase was primarily the result of a \$5.5 million reduction in benefits and expenses, although these improvements were partially offset by declines in insurance revenues.

Net income for the six months ended June 30, 2005 was \$16.4 million or \$1.37 per share. This represents a 25% increase from earnings of \$13.1 million or \$1.10 per share for the same period last year.

Insurance revenues declined 4% for the second quarter and 3% for the six month period, primarily due to lower premiums and contract charges. New sale premiums declined 6% for the second quarter and 4% for the six month period. Premiums from immediate annuities increased 15% for the second quarter and 34% for the six months.

Net investment income declined 3% for both the second quarter and six month period. Although the yield earned on the Company's investment portfolio has been negatively affected by the low interest rate environment in prior periods and expenses related to real estate investments have increased, gross investment income has remained stable during the first two quarters of the year.

The largest factor in the second quarter reduction in benefits and expenses was a decline in the amortization of deferred acquisition costs. This change was due to a change in estimates, which reduced both contract charges and the amortization of deferred acquisition costs, and resulted in an additional \$1.3 million in income before tax. Other favorable changes in benefits and expenses included reduced policyholder benefits, primarily due to improved mortality and lower benefits on group accident and health products. The lower interest rate environment resulted in reduced interest credited to policyholder account balances for both the quarter and six month periods. Finally, operating expenses declined \$1.4 million in the second quarter and \$3.3 million for the six month period, primarily due to efficiencies gained through the consolidation of GuideOne operating activities.

The Company is resolute in its pursuit of growth through improved new sales production from its existing network of agencies and agents, as well as the expansion of this network through recruitment of new, additional agencies and agents. We are truly excited about the growth opportunities that are present in our core business of providing life insurance and we look forward to reporting upon these growth opportunities in the future.

The Company is also pleased to announce that its Board of Directors has approved a quarterly dividend of \$0.27 per share to be paid August 23, 2005 to shareholders of record as of August 18, 2005.

**Consolidated
Balance Sheets**

(Thousands)

| | June 30 <u>2005</u> (Unaudited) | December 31 <u>2004</u> |
|--|---------------------------------------|----------------------------|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | \$ 2,976,315 | \$ 2,962,114 |
| Equity securities available for sale, at fair value | 59,319 | 63,099 |
| Mortgage loans | 461,821 | 430,632 |
| Short-term investments | 18,740 | 67,980 |
| Other investments | 199,088 | 202,146 |
| Total investments | 3,715,283 | 3,725,971 |
| Cash | 13,037 | 4,147 |
| Deferred acquisition costs | 226,299 | 229,712 |
| Value of business acquired | 91,975 | 96,853 |
| Other assets | 257,190 | 255,480 |
| Separate account assets | 353,195 | 353,983 |
| Total assets | \$ 4,656,979 | \$ 4,666,146 |
| Liabilities | | |
| Future policy benefits | \$ 856,967 | \$ 859,890 |
| Policyholder account balances | 2,296,112 | 2,299,647 |
| Notes payable | 67,897 | 92,220 |
| Income taxes | 57,461 | 53,703 |
| Other liabilities | 312,755 | 313,807 |
| Separate account liabilities | 353,195 | 353,983 |
| Total liabilities | 3,944,387 | 3,973,250 |
| Stockholders equity | | |
| Common stock | 23,121 | 23,121 |
| Additional paid in capital | 24,720 | 24,279 |
| Retained earnings | 743,444 | 733,499 |
| Accumulated other comprehensive income | 37,211 | 26,231 |
| Less treasury stock | (115,904) | (114,234) |
| Total stockholders equity | 712,592 | 692,896 |
| Total liabilities and equity | \$ 4,656,979 | \$ 4,666,146 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Quarter ended June 30 | | Six Months ended June 30 | |
|--|--------------------------|-------------|-----------------------------|-------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Revenues | | | | |
| Insurance revenues: | | | | |
| Premiums | \$ 46,036 | \$ 47,319 | \$ 92,461 | \$ 94,370 |
| Contract charges | 28,135 | 29,381 | 56,897 | 58,530 |
| Reinsurance ceded | (14,090) | (14,342) | (27,699) | (26,860) |
| Total insurance revenues | 60,081 | 62,358 | 121,659 | 126,040 |
| Investment revenues: | | | | |
| Net investment income | 46,861 | 48,391 | 95,651 | 99,118 |
| Realized investment gains (losses) | (378) | 724 | 957 | 1,527 |
| Other revenues | 2,649 | 1,734 | 5,216 | 4,268 |
| Total revenues | 109,213 | 113,207 | 223,483 | 230,953 |
| Benefits and expenses | | | | |
| Policyholder benefits | 43,711 | 45,490 | 89,435 | 95,958 |
| Interest credited to policyholder account balances | 22,698 | 23,038 | 45,908 | 47,347 |
| Amortization of deferred acquisition costs and value of business acquired | 8,640 | 10,612 | 19,305 | 20,460 |
| Operating expenses | 22,508 | 23,872 | 46,286 | 49,611 |
| Total benefits and expenses | 97,557 | 103,012 | 200,934 | 213,376 |
| Income before income tax expense | 11,656 | 10,195 | 22,549 | 17,577 |
| Income tax expense | 3,231 | 2,673 | 6,164 | 4,460 |
| Net income | \$ 8,425 | \$ 7,522 | \$ 16,385 | \$ 13,117 |
| Per common share: | | | | |
| Net income, basic and diluted | \$ 0.71 | \$ 0.63 | \$ 1.37 | \$ 1.10 |
| Cash dividends | \$ 0.27 | \$ 0.27 | \$ 0.54 | \$ 0.54 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated
Statements of Cash Flows (Unaudited)
(Thousands)

| | Six Months ended June 30 | |
|---|-----------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Operating activities | | |
| Net cash provided | \$ 23,287 | \$ 38,744 |
| Investing activities | | |
| Purchases of investments: | | |
| Fixed maturity securities | (302,895) | (475,685) |
| Equity securities | (1,433) | (2,077) |
| Mortgage loans | (64,943) | (26,252) |
| Other investment assets | (390,668) | (404,831) |
| Sales of investments: | | |
| Fixed maturity securities | 89,312 | 80,424 |
| Equity securities | 5,226 | 2,476 |
| Other investment assets | 442,439 | 446,341 |
| Maturities and principal paydowns of other investments | 239,768 | 304,016 |
| Net additions to property and equipment | (433) | (712) |
| Net cash provided (used) | 16,373 | (76,300) |
| Financing activities | | |
| Proceeds from borrowings | 22,264 | 1,306 |
| Repayment of borrowings | (46,587) | (5,759) |
| Deposits on policyholder account balances | 126,008 | 139,090 |
| Withdrawals from policyholder account balances | (119,253) | (103,294) |
| Net transfers to separate accounts | 318 | (7,805) |
| Change in other deposits | (5,851) | 2,093 |
| Cash dividends to stockholders | (6,439) | (6,545) |
| Net disposition (acquisition) of treasury stock | (1,230) | 139 |
| Net cash provided (used) | (30,770) | 19,225 |
| Increase (decrease) in cash | 8,890 | (18,331) |
| Cash at beginning of year | 4,147 | 20,029 |
| Cash at end of period | \$ 13,037 | \$ 1,698 |

See accompanying Notes to Consolidated Financial Statements.

Notes

Comprehensive income (loss) was \$41,868 and \$(48,998) for the second quarter of 2005 and 2004; and \$27,365 and \$(17,501) for the six months ended June 30, 2005 and 2004, 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 for the six months, 11,925,998 shares (11,926,817 shares - 2004).

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

August 16, 2005

(Date)