

KANSAS CITY LIFE INSURANCE CO

Form 8-K

November 14, 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): November 13, 2007**

**Kansas City Life Insurance Company**

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(Exact Name of Registrant as Specified in Charter)

Missouri  
(State of Incorporation)

2-40764  
(Commission File Number)

44-0308260  
(IRS Employer Identification No.)

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3520 Broadway

Kansas City, Missouri

(Address of Principal Executive Offices)

64111-2565

(Zip Code)

Telephone Number: (816) 753-7000

**Not Applicable**

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(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:

- 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 November 13, 2007. It reflects the financial condition, in a condensed format, for Kansas City Life Insurance Company as of September 30, 2007, and was previously included in the Company's third quarter Form 10-Q report filed on November 2, 2007.

**Message from the President, CEO and Chairman of the Board**

Kansas City Life Insurance Company reported net income of \$9.1 million or \$0.77 per share for the quarter and \$29.2 million or \$2.47 per share for the nine months ended September 30, 2007. Net income declined \$0.4 million or 4% for the third quarter and increased \$2.4 million or 9% for the nine months, relative to the same periods in 2006.

Net income for the third quarter was favorably impacted by increases in immediate annuity premiums and investment gains from the sale of real estate, along with reduced policyholder benefits and operating expenses. Offsetting these favorable results was the impact of reduced net investment income, which resulted from both a lower level of invested assets during the current year and lower investment expenses in the third quarter of 2006.

The increase in net income in the nine months was primarily due to a \$4.1 million increase in realized investment gains, accompanied by a decline in the amortization of deferred acquisition costs and value of business acquired, and reduced operating expenses.

New premiums increased 3% for the third quarter and nine month period relative to the prior year. This included increases in individual life, immediate annuity, and group life insurance premiums in the third quarter. New deposits on policyholder account balances increased 7% for the third quarter, primarily due to increases in variable and fixed deferred annuities. New deposits in the nine months increased 5%, primarily due to increased sales of variable annuities and universal life insurance.

Policyholder benefits and interest credited declined \$1.7 million or 3% in the third quarter relative to the same period in the prior year, primarily as a result of lower death benefits and reduced policyholder account balances. These same changes resulted in a decline of \$2.4 million or 1% in policyholder benefits and interest credited for the nine month period.

In addition to strong financial results, the Company strengthened its product mix with the addition of a new guaranteed minimum withdrawal benefit rider during the third quarter. This new product works in tandem with the Company's variable annuity product to provide policyholders with certain guaranteed levels of income in retirement. The introduction of this new product is noteworthy because these types of guaranteed income and benefit products are becoming very popular with consumers as they prepare for the uncertainties of providing for a secure future. The Company remains focused on increasing its life insurance business and an important aspect of successfully doing so is to maintain a competitive array of financial protection products that help Kansas City Life agents meet the financial security needs of their clients.

We were saddened by the recent passing of Warren J. Hunzicker, M.D., a member of the Kansas City Life Board of Directors since 1989. Having served as Vice President and Medical Director for Kansas City Life for many years prior to his service on the Board of Directors, Dr. Hunzicker contributed greatly to the success of Kansas City Life and will truly be missed.

The Kansas City Life Board of Directors approved a quarterly dividend of \$0.27 per share to be paid November 13, 2007, to shareholders of record as of November 8, 2007.



**Consolidated**  
**Balance Sheets**  
(Thousands)

|                                     | September 30<br>2007 | December 31<br>2006 |
|-------------------------------------|----------------------|---------------------|
|                                     | (Unaudited)          |                     |
| <b>Assets</b>                       |                      |                     |
| Investments:                        |                      |                     |
| Fixed maturity securities available |                      |                     |
| for sale, at fair value             | \$ 2,623,597         | \$ 2,719,439        |
| Equity securities available         |                      |                     |
| for sale, at fair value             | 49,256               | 52,351              |
| Mortgage loans                      | 458,466              | 472,019             |
| Short-term investments              | 63,031               | 44,219              |
| Other investments                   | 187,211              | 205,743             |
| <b>Total investments</b>            | <b>3,381,561</b>     | <b>3,493,771</b>    |
| Cash                                | 11,048               | 3,908               |
| Deferred acquisition costs          | 220,177              | 220,595             |
| Value of business acquired          | 76,146               | 82,769              |
| Other assets                        | 259,292              | 256,003             |
| Separate account assets             | 428,947              | 400,749             |
| <b>Total assets</b>                 | <b>\$ 4,377,171</b>  | <b>\$ 4,457,795</b> |
| <b>Liabilities</b>                  |                      |                     |
| Future policy benefits              | \$ 849,905           | \$ 853,102          |
| Policyholder account balances       | 2,110,532            | 2,191,105           |
| Notes payable                       | 8,700                | 14,700              |
| Income taxes                        | 27,764               | 35,319              |
| Other liabilities                   | 282,830              | 278,516             |
| Separate account liabilities        | 428,947              | 400,749             |
| <b>Total liabilities</b>            | <b>3,708,678</b>     | <b>3,773,491</b>    |
| <b>Stockholders' Equity</b>         |                      |                     |
| Common stock                        | 23,121               | 23,121              |
| Additional paid in capital          | 29,013               | 25,852              |
| Retained earnings                   | 776,909              | 780,892             |
| Accumulated other                   |                      |                     |
| comprehensive loss                  | (35,712)             | (25,118)            |
| Treasury stock                      | (124,838)            | (120,443)           |
| <b>Total stockholder's equity</b>   | <b>668,493</b>       | <b>684,304</b>      |
| <b>Total liabilities and equity</b> | <b>\$ 4,377,171</b>  | <b>\$ 4,457,795</b> |

*See accompanying Notes to Consolidated Financial Statements.*

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

|  | Quarter ended<br>September 30 |           | Nine Months ended<br>September 30 |            |
|--|-------------------------------|-----------|-----------------------------------|------------|
|  | 2007                          | 2006      | 2007                              | 2006       |
| <b>Revenues</b>  |                               |           |                                   |            |
| Insurance revenues:  |                               |           |                                   |            |
| Premiums   | \$ 43,041                     | \$ 43,182 | \$ 131,033                        | \$ 131,296 |
| Contract charges   | 28,058                        | 28,364    | 83,238                            | 86,217     |
| Reinsurance ceded  | (13,193)                      | (13,404)  | (40,532)                          | (40,739)   |
| Total insurance revenues   | 57,906                        | 58,142    | 173,739                           | 176,774    |
| Investment revenues:   |                               |           |                                   |            |
| Net investment income  | 46,869                        | 48,995    | 142,624                           | 146,731    |
| Realized investment gains  | 1,339                         | 757       | 6,501                             | 2,397      |
| Other revenues   | 2,674                         | 3,330     | 8,848                             | 8,835      |
| Total revenues   | 108,788                       | 111,224   | 331,712                           | 334,737    |
| <b>Benefits and expenses</b>   |                               |           |                                   |            |
| Policyholder benefits  | 41,646                        | 42,112    | 126,644                           | 126,138    |
| Interest credited to policyholder account balances                           | 22,614                        | 23,805    | 68,119                            | 71,019     |
| Amortization of deferred acquisition costs<br>and value of business acquired | 10,802                        | 10,623    | 28,400                            | 32,939     |
| Operating expenses   | 20,638                        | 21,392    | 65,764                            | 67,186     |
| Total benefits and expenses  | 95,700                        | 97,932    | 288,927                           | 297,282    |
| Income before income tax expense   | 13,088                        | 13,292    | 42,785                            | 37,455     |
| Income tax expense   | 3,957                         | 3,766     | 13,536                            | 10,631     |
| <b>Net Income</b>  | \$ 9,131                      | \$ 9,526  | \$ 29,249                         | \$ 26,824  |
| <b>Per common share:</b>   |                               |           |                                   |            |
| Net income, basic and diluted  | \$ 0.77                       | \$ 0.80   | \$ 2.47                           | \$ 2.25    |
| Cash dividends   | 0.27                          | 0.27      | 2.81                              | 0.81       |

*See accompanying Notes to Consolidated Financial Statements.*

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

|   | Nine Months ended<br>September 30 |           |
|---|-----------------------------------|-----------|
|   | 2007                              | 2006      |
| <b>Operating Activities</b>                               |                                   |           |
| Net cash provided   | \$ 3,716                          | \$ 5,165  |
| <b>Investing Activities</b>                               |                                   |           |
| Purchases of investments:                                 |                                   |           |
| Fixed maturity securities                                 | (191,568)                         | (200,850) |
| Equity securities   | (2,871)                           | (9,737)   |
| Mortgage loans  | (50,399)                          | (45,787)  |
| Real estate   | (2,465)                           | (44,068)  |
| Other investment assets                                   | (21,995)                          | -         |
| Sales of investments:                                     |                                   |           |
| Fixed maturity securities                                 | 32,856                            | 83,029    |
| Equity securities   | 3,481                             | 1,123     |
| Other investment assets                                   | 25,013                            | 32,205    |
| Maturities and principal paydowns<br>of other investments | 283,940                           | 241,362   |
| Net additions to property and<br>equipment                | (630)                             | (1,097)   |
| Proceeds from sale of<br>non insurance affiliate          | 10,104                            | -         |
| Net cash provided   | 85,466                            | 56,180    |
| <b>Financing Activities</b>                               |                                   |           |
| Proceeds from borrowings                                  | 30,637                            | 55,796    |
| Repayment of borrowings                                   | (36,637)                          | (65,045)  |
| Deposits on policyholder account<br>balances              | 154,914                           | 153,437   |
| Withdrawals from policyholder<br>account balances         | (227,562 )                        | (202,000) |
| Net transfers from<br>separate accounts                   | 11,391                            | 13,186    |
| Change in other deposits                                  | 19,725                            | (12,258)  |
| Cash dividends to stockholders                            | (33,275)                          | (9,624)   |
| Net acquisition of<br>treasury stock                      | (1,235)                           | (2,172)   |
| Net cash used   | (82,042)                          | (68,680)  |
| Increase (decrease) in cash                               | 7,140                             | (7,335)   |
| Cash at beginning of year                                 | 3,908                             | 12,099    |
| Cash at end of period                                     | \$ 11,048                         | \$ 4,764  |

See accompanying Notes to Consolidated Financial Statements.





*Notes*

- Comprehensive income was \$19.7 million and \$46.5 million for the third quarters and \$18.6 million and \$13.5 million for the nine months ended September 30, 2007 and 2006, respectively. This varies from net income largely due to unrealized gains or losses on investments.
- Net income per common share was based upon the weighted average number of shares outstanding of 11,842,494 and 11,875,104 for the third quarters and 11,851,906 and 11,888,046 for the nine months ended September 30, 2007 and 2006, respectively.
- 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](http://www.kclife.com).
- Certain amounts in prior years have been reclassified to conform with the current year presentation.

**SIGNATURES**

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**

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(Registrant)

By: /s/ William A. Schalekamp  
William A. Schalekamp,  
Senior Vice President,  
General Counsel & Secretary

November 13, 2007  
(Date)