KANSAS CITY LIFE INSURANCE CO
Form 10-12B
March 06, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or (g) of The Securities Exchange Act of 1934

KANSAS CITY LIFE INSURANCE COMPANY

(Exact Name of Registrant as Specified in its Charter)

Missouri (State or Other Jurisdiction of Incorporation or Organization)	44-0308260 (I.R.S. Employer Identification Number)
3520 Broadway, Kansas City, Missouri (Address of Principal Executive Offices)	64111-2565 (Zip Code)

Registrant's Telephone Number, including Area Code: 816-753-7000

SECURITIES TO BE REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class to be Registered	Name of Each Exchange on Which Each Class is to be Registered
$1.25 par value Common Stock	NASDAQ Capital Market LLC

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

(Title of Class)

EXPLANATORY COMMENT

Kansas City Life Insurance Company $1.25 par value common stock is being registered because the NASDAQ Capital Market, LLC has become a registered national securities exchange. The stock has not been previously registered because of our exemption for certain life insurance companies provided by 12(g)(2)(G) of the Securities Act of 1934. The stock has been listed on the NASDAQ Capital Market, LLC.

KANSAS CITY LIFE INSURANCE COMPANY

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Item 1. BUSINESS

Overview

Kansas City Life Insurance Company (the Company) was incorporated under the assessment laws of Missouri in 1895 as the Bankers Life Association. In 1900, its present corporate title was adopted and it was reorganized as a legal reserve company in 1903.

The Company has $31.3 billion of life insurance in force and approximately 620,000 policyowners as of December 31, 2006. Its assets were $4.5 billion and its stockholders equity was $684 million at year end. The Company s net income for the year-ended December 31, 2006, was $36.9 million with total revenues of $448.4 million.

The Company primarily consists of three insurance companies: Kansas City Life Insurance Company (Kansas City Life) the parent company, and wholly owned subsidiaries Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American). The Company also has several non-insurance subsidiaries that individually are not material.

The Company provides security assured to the people we serve; including our shareholders, policyowners, general agencies and sales representatives and our employees. The protection of funds entrusted to the Company by policyowners for their future security is a basic responsibility of each person who makes up the Company. Growth is essential for our long-term success and we are committed to achieving long-term growth in sales, revenues and profit.

Kansas City Life markets its individual insurance products, including traditional, interest sensitive and variable products through a nationwide sales force of independent general agents and third-party marketing arrangements. Kansas City Life also markets group insurance products, which include life, dental and disability products through a nationwide sales force of independent general agents, group brokers and third-party marketing arrangements. Kansas City Life operates in 48 states and the District of Columbia.

Sunset Life individual insurance products include traditional and interest sensitive products. To improve the efficiency of marketing efforts, the Sunset Life sales force has been integrated into the Kansas City Life sales force by appointing Sunset Life agents as agents of Kansas City Life effective January 1, 2006. Sunset Life continues as a life insurance company with its current block of business, but without new sales. Sunset Life operates in 43 states and the District of Columbia. Sunset Life s administrative and accounting operations are part of the Company s home office operations and administration.

Old American sells final expense insurance products nationwide through its general agency system, with exclusive territories, using direct response marketing to supply agents with leads. Old American operates in 46 states and the District of Columbia. Old American s administrative and accounting operations are part of the Company s home office but it operates and maintains a separate and independent field force.

The Company offers investment products and broker dealer services through its subsidiary Sunset Financial Services, Inc. (SFS) for both proprietary and non-proprietary variable insurance products and mutual funds.

Business Segments

The Company has three reportable business segments: Individual Insurance, Group Insurance and Old American. The Individual Insurance segment consists of individual insurance products for both Kansas City Life and Sunset Life. These products generate approximately 56% of consolidated revenues from customers. Group Insurance segment revenues account for 18% of consolidated revenues from customers and the Old American segment accounts for 26% of consolidated revenues from customers.

Kansas City Life and Sunset Life direct insurance revenues (total insurance revenues excluding reinsurance ceded) are primarily derived from premiums on traditional insurance products and contract charges. Traditional insurance products principally include term life and immediate annuities. Contract charges are collected from interest sensitive insurance products, including universal life, fixed deferred annuities and variable life and annuities. In 2006, they received 32% of its direct insurance revenues from premiums on traditional products, down from 34% in 2005 and 35% in 2004. The decline in premiums has primarily been the result of lower sales of immediate annuities. Over the past three years, the Company has focused its distribution efforts on life insurance sales, and a declining volume of annuity sales has resulted. These companies are central to the Company s overall performance and generated 90% of consolidated net income in 2006.

The Company offers several insurance products in the Group Insurance segment: dental, group life, short and long-term disability, and vision. The Group Insurance segment markets its group products primarily to small and mid-size organizations. Products are sold through group representatives targeting a nationwide network of independent general agents and group brokers, along with the Company s career general agents. This sales network is Group s core distribution system. Additionally, the Company enters into selective third-party marketing arrangements to market group products. In 2006, this segment generated 18% of the Company s customer revenues.

The group market is highly competitive and group policies are periodically reviewed to ensure they conform to target claims, expenses and profit objectives. Renewal terms that meet target pricing objectives are communicated to the group policyholder who may then decide to seek alternative bids from competing carriers.

The Group Insurance segment has experienced net losses in each of the last three years. Improvement efforts continue to be focused in three primary areas. First, emphasis is being placed on growing the in-force business to achieve better expense ratios from fixed costs and overhead. This will be achieved through increased individual productivity of the existing group representatives and through a continued expansion of the group distribution system. The second area of focus for improvement is to increase the use of technology to achieve improved administrative efficiency and reduce expenses. The third area of focus is to add new products to the portfolio, particularly voluntary products which tend to be more profitable and are increasingly becoming a larger share of the group marketplace.

Regulation

The Company and its subsidiaries are subject to state regulations in their states of domicile and in the states in which they do business. Although the federal government generally does not regulate the business of insurance, federal initiatives often have an impact on the business in a variety of ways, including the taxation of insurance companies and the tax treatment of insurance products. In addition, the Company is a stock life insurance company and is subject to the rules and regulations of the Securities and Exchange Commission (SEC). Current legislative activities are not expected to have a significant impact on the ongoing operations of the Company.

Employees

The Company and its subsidiaries had 537 full-time employees as of December 31, 2006. The Company considers relations with its employees to be good.

Competition

The Company operates in the life insurance sector of the financial services industry in the United States. The industry is highly competitive with respect to pricing, selection of products and quality of service. No single competitor or any small group of competitors dominate any of the markets in which the Company operates.

Insurance revenues are affected by the level of new sales, the type of products sold, and the persistency of policies, all of which may be influenced by economic conditions, as well as competitive forces. Consumers continue to desire a broad portfolio of products with safety and competitive return objectives, which the Company strives to provide. The Company offers a broad range of products, including variable insurance products, which allow policyholders to participate in both the equity and fixed income markets. Interest sensitive and traditional insurance products combine safety of principal with competitive interest returns.

Access to Public Filings

These documents may be accessed on the Company s website at the following addresshttp://www.kclife.com and will be provided as soon as is practicable after filing with the SEC, although not always on the same day. As the Company is an electronic filer, the SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers. The address of that site is http://www.sec.gov.

Business Changes

On January 23, 2006, the Company entered into a definitive agreement to sell its bank subsidiary, Generations Bank, for $10.1 million in cash to Brooke Corporation. On January 8, 2007, the Company completed the sale of Generations Bank after receiving regulatory approval from the Office of Thrift Supervision. The gain on the sale was $1.9 million. The bank subsidiary and the results of operations were not material to the financial statements of the Company and are not disclosed separately.

In 2006, the Company entered into a Master General Agent and Marketing Agreement with American Republic Insurance Company (American Republic) under which American Republic agents market Kansas City Life s insurance

products. For segment reporting purposes, sales under this agreement are reflected in the Individual Insurance segment.

As of year-end 2006, Group Insurance exited the stop loss market. The stop loss product line was being offered through an independent managing general underwriter, which also provided third-party administration. During the fourth quarter of 2006, the independent managing general underwriter was acquired by another organization, which then terminated the agreement. The Company will continue to focus on its core products and services, but may re-enter the stop loss market at a later date.

On January 1, 2005, the Company sold its administrative claims paying services, KCL Benefit Solutions, to The Epoch Group, L. C. for $0.2 million in order to concentrate more directly on its core products. As a result of this sale, other revenues and operating expenses declined in 2005 compared to the prior year. Other revenues for the Group Insurance segment declined $1.1 million or 62% in 2005 compared with 2004.

Cautionary Statement on Forward-Looking Information

This report reviews the Company s financial condition and results of operations, and historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include forward-looking statements that fall within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements rather than historical facts and may contain words like believe, expect, estimate, project, forecast, anticipate, plan, will, shall, and other words, phrases or expre similar meaning.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause the Company s future results to differ materially from expected results include, but are not limited to:

Changes in general economic conditions, including the performance of financial markets and interest rates;

Increasing competition and changes in consumer behavior, which may affect the Company s ability to sell its products and retain business;

Customer and agent response to new products, distribution channels and marketing initiatives;

Fluctuations in experience regarding current mortality, morbidity, persistency and interest rates relative to expected amounts used in pricing the Company s products;

Changes in assumptions related to deferred acquisition costs and the value of business acquired;

Regulatory, accounting or tax changes that may affect the cost of, or the demand for, the Company s products or services;

Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations.

The Company cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Item 1A. **RISK FACTORS**

Equity Security Risks

Lack of Market for Common Equity Securities

The Company was incorporated as a life insurance company in 1895. The Company s stock has traded on the NASDAQ Stock Market LLC since 1965. The stock has not been registered because of an exemption for certain life insurance companies provided by 12(g)(2)(G) of the Securities and Exchange Act of 1934. On July 31, 2006, the NASDAQ Stock Market LLC advised the Company that it had registered as a national securities exchange. The Company has been exempted from the registration requirement until August 1, 2009, but has elected to register its stock now.

Approximately 60 percent of the Company s stock is held subject to a Voting Agreement dated October 31, 2004, as reported on a Schedule 13D filed by the Bixby Family Group with the Securities and Exchange Commission on November 2, 2004. In addition, approximately 5.7 percent of the stock is held by the Company s Savings and Profit Sharing Plan, Employee Stock Plan and Agents Stock Bonus Plan. This leaves approximately 34.4 percent held by others thereby potentially reducing the size of the market for the companies stock. The Company has approximately 2,521 stockholders as of December 31, 2006.

Shareholders Group Signed Voting Agreement Making the Company a Controlled Company.

Because more than 50% of exemptions stockholder voting power is held pursuant to a Voting Agreement dated October 31, 2004, the Company has elected to be treated as a controlled company under the corporate governance listing standards of the NASDAQ Capital Market, LLC. Accordingly, the Company is exempt from the corporate governance listing standards requiring (i) a board consisting of a majority of directors who have been determined to be independent under the criteria set forth in the listing standards, (ii) a nominating committee composed entirely of independent directors (iii) a compensation committee composed entirely of independent directors. The voting group has sufficient voting power to control the board makeup.

Currently, seven of fourteen directors have been determined to be independent under the criteria set forth in the listing standards and the Compensation and Audit Committees are composed entirely of such independent directors. No independent directors sit on the nominating committee.

Classified Board May Restrict Replacement of Directors Resulting in Board Entrenchment.

The Board is classified into three classes of director positions each of which serves for a three year term. The classes are staggered over a three year period. The result is that only one third of the Board is subject to election each year. Cumulative voting is permitted which could further reduce the likelihood of replacing a director.

Voting Restrictions May Inhibit Business Combinations

The Articles of Incorporation as restated and amended require an affirmative vote of at least 66 2/3% of the outstanding shares of each class of Voting Stock for a business combination with a Related Person, being any person that owns 5% or more of any outstanding shares of any class. The 66 2/3% vote requirement shall be calculated by excluding from the voted shares and number of shares of the class being considered those shares of which the Related Person is the Beneficial Owner all as provided for in Article 9 of said Articles.

Life Insurance Company Risks

The Company is a life insurance company whose admitted assets are allocated to lines of business and, therefore, represent future benefits to policyholders.

The Company categorizes its main risks into five major risk types. Asset/Liability and Market Risk, Credit Risk, Product Risk, Operational Risk and Strategic Risk.

Asset/Liability and Market Risk

Asset/Liability and Market Risk is the risk of loss resulting from market price volatility, interest rate changes, adverse movements in foreign currency rates, and from not having access to sufficient funds to meet both expected liabilities and unexpected cash demands.

The Company s asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines, cash flow testing under various interest rate scenarios to evaluate the potential

sensitivity of assets and liabilities to interest rate movements, and the continuous rebalancing of assets and liabilities with respect to yield, risk, and cash flow characteristics.

The Company believes its asset/liability management programs and procedures, along with certain product features, provide protection for the Company against the effects of changes in interest rates under various scenarios.

Cash flows and effective durations of the asset and liability portfolios are measured at points in time and are affected by changes in the level and term structure of interest rates, as well as changes in policyholder behavior. Further, durations are managed on an individual product level, as well as an aggregate portfolio basis. As a result, differences typically exist between the duration, cash flows and yields of assets versus liabilities on an individual portfolio and aggregate basis. The Company s asset/liability management programs and procedures enable management to monitor the changes, which have both positive and negative correlations among certain portfolios, and to make adjustments to asset mix, liability crediting rates and product terms so as to manage risk and profitability over time.

The Company Has a Risk That the Asset or Liability Portfolio Performance May Differ From Forecasted Results.

The Company performs cash flow scenario testing through models of its in-force business. These models reflect specific product characteristics and include assumptions based on current and anticipated experience regarding the relationships between short-term and long-term interest rates (i.e., the slope of the yield curve), credit spreads, market liquidity and other factors, including policyholder behavior in certain market conditions. In addition, these models include asset cash flow projections, reflecting interest payments, sinking fund payments, principal payments, bond calls and mortgage prepayments.

The Company has a risk that the asset or liability portfolio performance may differ from forecasted results as a result of unforeseen economic circumstances, estimates or assumptions that prove incorrect, unanticipated policyholder behavior or other factors. The result of such deviation of actual versus expected performance could include excess or insufficient liquidity in future periods. Excess liquidity, in turn, could result in reduced profitability on one or more product lines. Insufficient liquidity could result in the need to generate liquidity through borrowing, asset sales or other means. The Company believes that adherence to its asset/liability management programs will provide sufficient liquidity to enable it to fulfill its obligation to pay benefits under its various insurance and deposit contracts. On a historical basis, the Company has not needed to liquidate assets to ensure sufficient cash flows. The Company maintains borrowing lines on a secured and unsecured basis to provide additional liquidity, if needed.

The Company markets certain variable products. The policyholder assumes essentially all the investment earnings risk for the portion of the account balance invested in the separate accounts. However, the Company assesses certain charges based on the policy account values and changes to the account values can affect the Company's earnings. The portion of the policyholder's account balance invested in the fixed general account, if any, is affected by many factors, including the absolute level of interest rates, relative performance of the fixed income and equity markets, spreads between interest yields on investments and rates credited to the policyholder's accounts, and changes in consumer preferences.

Interest Rate Risk

The Company holds a diversified portfolio of investments that includes cash, bonds, preferred stocks, mortgage-backed securities, commercial mortgages and real estate. Each of these investments is subject, in varying degree, to market risks that can affect their return and their fair value. A majority of these assets are debt instruments of corporations or U.S. Government Sponsored Enterprises (GSE) and are considered fixed income investments. Thus, the primary market risks affecting the Company s portfolio are interest rate risk, credit risk and liquidity risk.

Interest rate risk arises from the price sensitivity of investments to changes in interest rates. Coupon and dividend income represent the greatest portion of an investment s total return for most fixed income instruments in stable interest rate environments. The changes in the fair market price of such investments are inversely related to changes in market interest rates. As interest rates fall, the coupon and dividend streams of existing fixed rate investments become more valuable and market values rise. As interest rates rise, the opposite effect occurs.

The net unrealized gain on the Company s investment portfolio decreased in 2006, primarily due to increasing interest rates. At year-end, the fair value of the securities exceeded its book value by $2.7 million.

Due to the complex nature of interest rate movements and their uneven effects on the value of fixed income investments, the Company uses sophisticated computer programs to help consider potential changes in the value of the portfolio. Assuming that changes occur equally over the entire term structure of interest rates or yield curve, it is estimated that a

100 basis point increase in rates would translate to a $131.6 million loss of fair value for the $2.8 billion securities portfolio. Conversely, a 100 basis point rate decrease would translate to a $128.6 million increase in fair value.

Market changes rarely follow a linear pattern in one direction for any length of time. Within any diversified portfolio, an investor will likely find embedded options, both puts and calls, that change the structure of the cash flow stream. Mortgage-backed securities are particularly sensitive to interest rate changes. As long-term interest rates fall, homeowners become more likely to refinance their mortgage or move up to a larger home, causing a prepayment of the outstanding mortgage principal, which must then be reinvested at a lower rate. Should interest rates rise suddenly, prepayments expected by investors may decrease, extending the duration of a mortgage pool. This represents a further interest rate risk to investors.

As interest rates rise, policyholders may become more likely to surrender policies or to borrow against cash values, often to meet sudden needs in an inflationary environment or to invest in higher yielding opportunities elsewhere. This risk of disintermediation may force the Company to liquidate parts of its portfolio at a time when the fair value of fixed income investments is falling. If interest rates fall, the Company may also be forced to invest new cash receipts at levels below the minimum guaranteed rates payable to policyholders, eroding profit margins. The Company can usually adapt to small sudden changes in interest rates or even large changes that occur over longer periods of time. However, cash flow may increase or decrease over the course of the business cycle. Therefore, the Company takes steps to ensure that adequate liquidity is available to meet obligations in a timely manner. To this end, the Company utilizes an asset/liability management program, and the Company maintains lines of credit with commercial banks and other short-term borrowing arrangements with financial institutions.

Credit Risk

The majority of the Company s investments are exposed to varying degrees of credit risk. Credit risk is the risk that the value of the investment may decline due to deterioration in the financial strength of the issuer and that the timely or ultimate payment of principal or interest might not occur. A default by an issuer usually involves some loss of principal to the investor. Losses can be mitigated by timely sales of affected securities or by active involvement in a restructuring process. However, there can be no assurance that the efforts of an investor will lead to favorable outcomes in a bankruptcy or restructuring.

The Company currently holds $154.6 million of foreign bonds. The foreign securities do not expose the Company directly to foreign currency risk, as the securities are denominated in U.S. dollars. As a result, the foreign currency risk lies with the issuer of the securities and may expose the issuer to fluctuations in the foreign currency market.

As market interest rates fluctuate, so will the value of the Company's investment portfolio and its stockholders' equity. At December 31, 2006, the Company had an unrealized investment gain of $1.2 million (net of related taxes, policyholder account balances and deferred acquisition costs), compared to $17.5 million at year-end 2005. This decrease was primarily the result of increases in interest rates.

Product Risk

Product Risk is the risk of significant loss due to actual experience emerging differently than assumed when the product was designed and priced, as a result of variations in experience such as investment returns, expenses, taxes, mortality and morbidity claims, sales mix and policyholder behavior.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events such as natural disasters or pandemic disease.

Strategic Risk

Strategic Risk is the risk of loss resulting from the inability to adequately plan or implement an appropriate business strategy, or to adapt to change in the external business, political or regulatory environment.

Ratings Downgrade Risk

Ratings are important factors in establishing the competitive position of insurance companies. A downgrade, or the potential for such a downgrade, of any of our ratings could, among other things; materially increase the number of policy or contract surrenders for all or a portion of their net cash values and withdrawals by policyholders of cash values from their policies; result in the termination of relationships with independent general agents, and third party marketers of the Company s products and services. Any of these consequences could adversely affect the Company s profitability and financial condition.

Regulation Change Risk

The Company s insurance business is subject to comprehensive state regulation and supervision throughout the United States. The primary purpose of state regulation of the insurance business is to protect policyholders, and not necessarily to protect other constituencies such as creditors or investors. State insurance regulators and the National Association of Insurance Commissioners continually reexamine existing laws and regulations and may impose changes in the future. Changes in federal legislation and administrative policies in areas such as employee benefit plan regulation, financial services regulation and federal taxation could result in increased exposure on outstanding products or reduced sales of new products and therefore, could reduce the Company s profitability.

Item 2. **FINANCIAL INFORMATION**

SELECTED CONSOLIDATED FINANCIAL DATA

(amounts in thousands, except share data)

	2006	2005	2004	2003	2002
Revenues:					
Insurance revenues	$ 235,154	$ 238,495	$ 250,101	$ 272,644	$ 248,581
Net investment income	196,280	194,608	197,975	194,763	194,235
Realized investment gains (losses)	5,621	6,113	45,929	(29,280)	(18,240)
Other revenues	11,349	10,312	8,468	9,387	14,779
Total revenues	$ 448,404	$ 449,528	$ 502,473	$ 447,514	$ 439,355
Net income	$ 36,918	$ 36,184	$ 57,687	$ 14,793	$ 31,549
Per common share:					
Net income, basic and diluted	$ 3.11	$ 3.03	$ 4.83	$ 1.24	$ 2.63
Cash dividends to stockholders	$ 1.08	$ 1.08	$ 1.08	$ 1.08	$ 1.08
Stockholders' equity	$ 57.72	$ 57.07	$ 58.00	$ 54.04	$ 49.81
Assets	$ 4,460,422	$ 4,558,372	$ 4,666,146	$ 4,549,687	$ 3,865,252
Notes payable	14,700	27,282	92,220	133,670	97,241
Stockholders' equity	684,304	680,219	692,896	644,438	597,497
Life insurance in force	$ 31,261,016	$ 30,949,501	$ 30,980,928	$ 32,216,624	$ 26,591,093

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations analyzes the consolidated financial condition, changes in financial position and results of operations for the three years ended December 31, 2006 of Kansas City Life Insurance Company and its consolidated subsidiaries. The discussion should be read in conjunction with the Consolidated Financial Statements and Notes. All dollar amounts are in thousands except share data.

Overview

Kansas City Life Insurance Company (the Company) is a financial services company. The Company primarily consists of three life insurance companies: Kansas City Life Insurance Company (Kansas City Life) the parent company, and wholly owned subsidiaries Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American).

Kansas City Life offers traditional, interest sensitive, and variable life and annuity insurance products, in addition to a variety of group life and group accident and health insurance products, and is licensed in 48 states and the District of Columbia.

Sunset Life is a life insurance and annuity carrier and is licensed in 43 states and the District of Columbia. To improve the efficiency of marketing efforts, the Sunset Life sales force has been integrated into the Kansas City Life sales force by appointing Sunset Life agents as agents of Kansas City Life effective January 1, 2006. Sunset Life continues as a life insurance company with its existing block of business, and without new sales.

Old American provides individual insurance products designed to meet final expense needs. Old American is licensed in 46 states and the District of Columbia.

The Company offers investment products and broker dealer services through its subsidiary Sunset Financial Services, Inc. (SFS) for both proprietary and non-proprietary variable insurance products and mutual funds.

Business Changes

On January 23, 2006, the Company entered into a definitive agreement to sell its bank subsidiary, Generations Bank, for $10.1 million in cash to Brooke Corporation. On January 8, 2007, the Company completed the sale of Generations Bank after receiving regulatory approval from the Office of Thrift Supervision. The gain on the sale was $1.9 million. The bank subsidiary and the results of operations were not material to the financial statements of the Company and are not disclosed separately.

In 2006, the Company entered into a Master General Agent and Marketing Agreement with American Republic Insurance Company (American Republic) under which American Republic agents market Kansas City Life s insurance products. For segment reporting purposes, sales under this agreement are reflected in the Individual Insurance segment.

Cautionary Statement on Forward-Looking Information

This report reviews the Company s financial condition and results of operations, and historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include forward-looking statements that fall within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements rather than historical facts and may contain words like believe, expect, estimate, project, forecast, anticipate, plan, will, shall, and other words, phrases or expre similar meaning.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause the Company s future results to differ materially from expected results include, but are not limited to:

Changes in general economic conditions, including the performance of financial markets and interest rates;

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Increasing competition and changes in consumer behavior, which may affect the Company s ability to sell its products and retain business;

Customer and agent response to new products, distribution channels and marketing initiatives;

Fluctuations in experience regarding current mortality, morbidity, persistency and interest rates relative to expected amounts used in pricing the Company s products;

Changes in assumptions related to deferred acquisition costs and the value of business acquired;

Regulatory, accounting or tax changes that may affect the cost of, or the demand for, the Company s products or services;

Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations.

The Company cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Critical Accounting Policies and Estimates

The accounting policies below have been identified as critical to the understanding of the results of operations and financial position. The application of these critical accounting policies in preparing the financial statements requires management to use a variety of assumptions and estimates, in particular expectations of current and future mortality, morbidity, persistency, expenses, interest rates and equity market performance. Actual results may differ from these estimates under different assumptions or conditions. The profitability of life insurance and annuity products is dependent on actual experience and differences between actual experience and pricing assumptions may result in variability of net income in amounts which may be material. On an ongoing basis, estimates, assumptions and judgments are evaluated based on historical experience and various other information believed to be reasonable under the circumstances. For a detailed discussion of other significant accounting policies, see Note 1 Nature of Operations and Significant Accounting Policies in the Notes to Consolidated Financial Statements.

Recognition of Revenues

Premiums are included in insurance revenues in the Consolidated Statements of Income. Premiums for traditional life insurance products are reported as revenue when due. Traditional insurance products include whole life, term life, immediate annuities and supplementary contracts with life contingencies.

Premiums on accident and health, disability and dental insurance are reported as earned ratably over the contract period in proportion to the amount of insurance protection provided. A reserve is provided for the portion of premiums written which relates to unexpired terms of coverage.

Deposits relate to insurance products that include universal life, variable life, variable annuities, fixed deferred annuities and deposit products without life contingencies. The cash flows from deposits are credited to policyholder account balances. Deposits are not recorded as revenue, but revenues from such contracts consist of amounts assessed against policyholder account balances for mortality, policy administration and surrender charges, and are recognized in the period in which the benefits and services are provided. Deposits are shown as a Financing Activity in the Consolidated Statements of Cash Flows.

The Company measures its sales or new business production with two components: new premiums recorded and new deposits received. Premiums and deposits are subdivided into two categories: new and renewal. New premiums and deposits are measures of sales or new business production. Renewal premiums and deposits occur as continuing business from existing customers.

Reinsurance

Reinsurance is one of the tools that the Company uses to accomplish its business objectives. A variety of reinsurance vehicles are currently in use, including individual and bulk arrangements on both coinsurance and mortality/morbidity only basis. Reinsurance supports a multitude of corporate objectives including managing statutory capital, reducing volatility and surplus strain. At the customer level, reinsurance increases the Company s capacity, provides access to additional underwriting expertise, and generally makes it possible for the Company to offer products at competitive levels that could not otherwise be made available. Reinsurance is an actively managed tool that has increased in importance over recent years and will continue to play a role in the Company s future. Reinsurance receivables include amounts related to paid benefits and estimated amounts related to unpaid policy and contract claims, future policy benefits and policyholder account balances.

Future Policy Benefits

The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, annuities and accident and health insurance. Generally, amounts are payable over an extended period of time. Principal assumptions used in pricing policies and in the establishment of liabilities for future policy benefits are mortality, morbidity, expenses, persistency, investment returns and inflation.

Policyholder Account Balances

Policyholder account balances include universal life insurance, fixed deferred annuity contracts and investment-type contracts. The account balances for universal life contracts are equal to cumulative premiums, less contract charges and withdrawals, plus interest credited. The account balances for fixed deferred annuities and investment-type contracts are equal to the cumulative deposits, less any applicable contract charges and withdrawals, plus interest credited.

Deferred Acquisition Costs (DAC) and Value of Business Acquired (VOBA)

Deferred acquisition costs (DAC), principally agent commissions and other selling, selection and issue costs, which vary with and are directly related to the production of new business, are capitalized as incurred. These deferred costs are then amortized in proportion to future premium revenues or the expected future profits of the business, depending upon the type of product.

When a new block of business is acquired, a portion of the purchase price is allocated to a separately identifiable intangible asset, called the value of business acquired (VOBA). VOBA is established as the actuarially determined present value of future gross profits of the business acquired and is amortized in proportion to future premium revenues or the expected future profits, depending on the type of business acquired.

The Company considers the following assumptions to be of significance when evaluating the amortization of DAC and VOBA: expected mortality, interest spreads, surrender rates and expense margins. Mortality relates to the occurrence of death. Interest spreads are the difference between the investment returns earned and the crediting rates of interest applied to policyholder account balances. Surrender rates relate to the relative volume of policy terminations. Expense margins involve the expenses incurred for maintaining and servicing in-force policies.

At least annually, a review is performed of the models and the assumptions used to develop expected future profits, based upon management s current view of future events. Management s view primarily reflects Company experience but can also reflect emerging trends within the industry. Short-term deviations in experience affect the amortization of DAC and VOBA in the period, but do not necessarily indicate that a change to the long-term assumptions of future experience is warranted. If it is determined that it is appropriate to change the long-term assumptions of future experience, then an unlocking adjustment is recognized for the block of business being evaluated. Certain assumptions, such as interest spreads and surrender rates, may be interrelated. As such, unlocking adjustments often reflect revisions to multiple assumptions. The balances of DAC and VOBA are immediately impacted by any assumption changes, with the change reflected through the income statement as an unlocking adjustment in the amount of DAC or VOBA amortized. These adjustments can be positive or negative. The impact of unlocking adjustments from the changes in estimates for the periods reported are included in the sections *Consolidated Results of Operations* and *Operating Results by Segment*.

The following table reflects the estimated pre-tax impact to DAC and VOBA on universal life, variable universal life, and fixed and variable deferred annuity products; that could occur in a given year for an unlocking adjustment due to reasonably likely changes in significant assumptions. Changes in assumptions of the same magnitude in the opposite direction would have an impact of a similar magnitude but opposite direction of the examples provided.

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Critical Accounting Estimate	Determination Methodology	Potential One-time Pre-tax Effect on DAC, VOBA and Related Items
Mortality Experience	Based on Company mortality experience. Industry experience and trends are also considered.	A 2.5% increase in expected mortality experience for all future years would result in a reduction in DAC and VOBA, and an increase in current period amortization expense of $5.0 million.
Surrender Rates	Based on Company surrender experience. Industry experience and trends are also considered.	A 10% increase in expected surrender rates for all future years would result in a reduction in DAC and VOBA, and an increase in current period amortization expense of $2.4 million.
Interest Spreads	Based on expected future investment returns and expected future crediting rates applied to policyholder account balances; future crediting rates include constraints imposed by policy guarantees.	A 10 basis point reduction in future interest rate spreads would result in a reduction in DAC and VOBA, and an increase in current period amortization expense of $4.1 million.
Maintenance Expenses	Based on Company experience using an internal expense allocation methodology.	A 10% increase in future maintenance expenses would result in a reduction in DAC and VOBA, and an increase in current period amortization expense of $1.9 million.

Valuation of Investments

The Company s principal investments are in fixed maturity securities, mortgage loans and real estate; all of which are exposed to three primary sources of investment risk: credit, interest rate and liquidity. The fixed maturity securities, which are all classified as available for sale, are carried at their fair value in the Company s balance sheet, with unrealized gains or losses recorded in accumulated other comprehensive loss. The investment portfolio is monitored regularly to ensure that investments which may be other than temporarily impaired are identified in a timely fashion and properly valued, and that impairments are charged against earnings as realized investment losses. The valuation of the investment portfolio involves a variety of assumptions and estimates, especially for investments that are not actively traded. Fair values are obtained from a variety of external sources.

The Company has a policy and process in place to identify securities that could potentially have an impairment that is other-than-temporary. This process involves monitoring market events that could impact issuers credit ratings, business climate, management changes, litigation and government actions, and other similar factors. This process also involves monitoring late payments, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues.

At the end of each quarter, all securities are reviewed to determine whether impairments should be recorded. For those securities where fair value is less than ninety percent of amortized cost for six consecutive months or more, a detailed analysis is prepared which focuses on each issuer s ability to service its debts and the length of time and extent the security has been valued below cost. This quarterly process includes an assessment of the credit quality of each investment in the entire securities portfolio.

The Company considers relevant facts and circumstances in evaluating whether the impairment of a security is other-than-temporary. Relevant facts and circumstances considered include (1) the current fair value of the security as compared to cost, (2) the length of time the fair value has been below cost, (3) the financial position of the issuer, including the current and future impact of any specific events, and (4) the Company s ability and intent to hold the security to maturity or until it recovers in value. To the extent the Company determines that a security is deemed to be other than temporarily impaired, the difference between amortized cost and fair value would be charged to income as a realized investment loss, resulting in a permanent reduction to the cost basis of the underlying investment.

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There are a number of significant risks and uncertainties inherent in the process of monitoring impairments and determining if an impairment is other-than-temporary. These risks and uncertainties include (1) the risk that the Company s assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer, (2) the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated, (3) the risk that fraudulent information could be provided to the Company s investment professionals who determine the fair value estimates and other-than-temporary impairments, and (4) the risk that new information obtained by the Company or changes in other facts and circumstances lead the Company to change its intent to hold the security to maturity or until it recovers in value. Any of these situations could result in a charge to income in a future period.

Income Taxes

Deferred income taxes are recorded on the differences between the tax bases of assets and liabilities and the amounts at which they are reported in the consolidated financial statements. Recorded amounts are adjusted to reflect changes in income tax rates and other tax law provisions as they become enacted. Deferred income tax assets are subject to ongoing evaluation of whether such assets will be realized. The ultimate realization of deferred income tax assets depends on generating future taxable income during the periods in which temporary differences become deductible. A valuation allowance against deferred income tax assets may be required, if future taxable income is not expected.

Pensions and Other Postretirement Benefits

The measurement of pension and other postretirement benefit obligations and costs depends on a variety of assumptions. Assumptions are made regarding the discount rate, expected long-term rate of return on plan assets, employee turnover, expected compensation increases, health care claim costs, heath care cost trends, retirement rates and mortality. The discount rate and the expected return on plan assets have the most significant impact on the level of cost. See Note 7 Pensions and Other Postretirement Benefits in the Notes to Consolidated Financial Statements for further details.

Consolidated Results of Operations

Summary

The Company s net income increased $0.7 million in 2006, versus the prior year, to a total of $36.9 million. Net income per share increased 3% in 2006 to $3.11, compared with $3.03 for 2005, but declined from $4.83 in 2004. The improved results for the year ended 2006 was largely due to an increase in net investment income and decreases in policyholder benefits, interest credited to policyholder account balances, and amortization of DAC and VOBA. These favorable changes were partially offset by a decline in insurance revenues and increased operating expenses. The decline in 2006 net income compared with the 2004 results were due to the sale in 2004 of a significant real estate holding that generated a $26.4 million realized investment gain, net of income taxes. Excluding the significant real estate transaction in 2004, the decline in revenues in 2005 compared with 2004 were more than offset by declines in benefits and expenses.

Sales

The Company measures sales in terms of new premiums and deposits. Premiums are included in insurance revenues in the Consolidated Statements of Income, while deposits are shown as a Financing Activity in the Consolidated Statements of Cash Flows. The first set of tables below reconciles premiums included in insurance revenues and provides detail by new and renewal business. New premiums are also detailed by product. The second set of tables reconciles deposits with the Consolidated Statements of Cash Flows and provides detail by new and renewal deposits. New deposits are also detailed by product.

Total premiums declined 2% in 2006 following a 5% decline in 2005. The decline in 2006 from 2005 was primarily due to lower sales of immediate annuities, and the decline in 2005 from 2004 was primarily due to reduced immediate annuity and group accident and health sales and renewal premiums. New individual life premiums declined 6% in 2006 and 2% in 2005, while new immediate annuity premiums declined 41% in 2006 and 14% in 2005. The Company s marketing plan has been to focus its primary growth strategies on its individual life business and to grow the business through its existing field force, including the addition of new agents and general agents. As a result of the emphasis on individual life insurance sales, a decline in annuity sales has occurred. The decline in individual life sales in 2006 was primarily the result of lower sales through third-party marketing arrangements, specifically GuideOne Insurance agents. This was primarily due to a change in marketing emphasis by GuideOne Insurance to increase sales of property casualty policies. In addition, sales within the Old American business segment have declined due to increased competition. As identified earlier, the Company has entered into a marketing agreement with American Republic Insurance Company whereby American Republic will market Kansas City Life s life insurance products. This agreement makes available

nearly 600 career sales representatives to sell these products. It is anticipated that American Republic agents will contribute significantly to individual life sales in the future.

Total group premiums grew 6% in 2006 but declined 5% in 2005. The increase in 2006 was largely the result of a 17% increase in new group accident and health sales, primarily from the group dental product line. New group life insurance declined 23% in 2006 and 12% in 2005.

	2006	%	2005	%	2004
New premiums:					
Individual life insurance	$ 12,242	(6)	$ 13,092	(2)	$ 13,420
Immediate annuities	7,174	(41)	12,159	(14)	14,137
Group life insurance	1,020	(23)	1,327	(12)	1,507
Group accident and health insurance	11,267	17	9,612	(18)	11,755
Individual accident and health insurance	-	-	-	100)	416
Total new premiums	31,703	(12)	36,190	(12)	41,235
Renewal premiums	143,934	1	143,157	(3)	147,646
Total premiums	$ 175,637	(2)	$ 179,347	(5)	$ 188,881

New deposits declined 26% in 2006 and 25% in 2005, largely as a result of decreases in fixed deferred and variable annuity sales. The declines can be attributed to increased competition and the emergence of alternative products.

New universal life deposits increased 1% in 2006 but declined 7% in 2005. The increase in the sale of universal life products positively reflects the increased emphasis on the sale of life insurance products. New variable universal life products increased 7% in 2006 but declined 35% in 2005.

Renewal deposits declined 11% in 2006 but increased 1% in 2005. The decline in 2006 primarily resulted from decreases in renewal deposits from fixed deferred annuities and variable annuities of 35% and 19%, respectively.

	2006	%	2005	%	2004
New deposits:					
Universal life insurance	$ 10,117	1	$ 10,004	(7)	$ 10,784
Variable universal life insurance	2,372	7	2,210	(35)	3,407
Fixed deferred annuities	29,815	(40)	49,698	(29)	69,769
Variable annuities	21,507	(14)	24,894	(23)	32,356
Total new deposits	63,811	(26)	86,806	(25)	116,316
Renewal deposits	139,139	(11)	155,807	1	154,817
Total deposits	$ 202,950	(16)	$ 242,613	(11)	$ 271,133

Insurance Revenues

Insurance revenues consist of premiums and contract charges, less reinsurance ceded. Insurance revenues decreased $3.3 million or 1% to $235.2 million in 2006 versus a decrease of $11.6 million or 5% to $238.5 million in 2005. The decline in 2006 was largely the result of a $5.0 million decrease in immediate annuity premiums and a $1.5 million decrease in individual life premiums. These changes were partially offset by a $2.8 million increase in accident and health premiums, which was largely the result of increased group dental sales. The decline in 2005 premiums was primarily due to decreased sales of immediate annuities and group accident and health insurance.

Contract charges were flat in 2006 versus a decline of 1% in 2005, which occurred as a result of a $1.0 million decrease from an unlocking adjustment.

Contract charges consist of cost of insurance, expense loads, unearned revenues and surrender charges. Certain contract charges for universal life insurance are not recognized in income immediately but are deferred as unearned revenues and are amortized into income in a manner similar to the amortization of DAC. These contract charges, which are recorded as unearned revenues, are recognized into income in proportion to the expected future gross profits of the business. In the same manner as DAC, profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. At least annually, a review is performed of the

assumptions related to profit expectations. If it is determined the assumptions should be revised, the impact is recorded as a change in the revenue reported in the current period as an unlocking adjustment.

Reinsurance ceded declined $0.6 million to $55.0 million in 2006 from $55.6 million in 2005. In 2004, reinsurance ceded was $54.5 million. The Company uses reinsurance as a means to mitigate its risks and to reduce the earnings volatility from claims.

Insurance revenues are affected by the level of new sales, the type of products sold, and the persistency of policies, all of which may be influenced by economic conditions, as well as competitive forces. Consumers continue to desire a broad portfolio of products with safety and competitive return objectives, which the Company strives to provide. The Company offers a broad range of products, including variable insurance products, which allow policyholders to participate in both the equity and fixed income markets. Interest sensitive and traditional insurance products combine safety of principal with competitive interest returns.

Investment Revenues

Net investment income increased 1% in 2006 but declined 2% in 2005 from 2004. Net investment income was $196.3 million in 2006, compared with $194.6 million in 2005 and $198.0 million in 2004. The increase in net investment income in 2006 resulted from reduced investment expenses, primarily due to lower real estate expenses. In 2005, investment expenses increased due to increased real estate expenses. Negatively affecting net investment income in 2006, total invested assets declined versus the prior year and were offset by a slight increase in investment yields. In 2005, total invested assets declined versus the prior year and investment yields declined slightly versus 2004.

Net investment income was largely composed of securities related activity, which includes fixed maturity securities, equity securities and short-term investments. Net investment income also includes income from mortgage loans, real estate and policy loans. Investment income was net of investment expenses. Investment income on securities related activity declined less than $0.6 million or 1% in 2006 compared with 2005. This same activity in 2005 compared with 2004 increased 2% or $2.7 million. Income from fixed maturity securities decreased 1% compared with 2005 but increased 2% in 2005 compared with 2004. In 2006, investment income from equity securities increased 26%, while in 2005 a decrease in equity securities accounted for a $0.7 million or 16% decrease in equity security investment income.

Investments in mortgage loans increased $13.4 million during 2006, but investment income from mortgage loans decreased $1.1 million or 3% for the year. Despite a $28.0 million increase in mortgage loan assets in 2005, mortgage loan investment income declined $0.5 million or 1%. The reduced income in both years reflects a decline in available yields on new mortgages and the impact of the prepayment of loans with rates higher than those of new loans.

Real estate investments increased $28.9 million in 2006 compared with 2005, but many of these new investments were development properties where the income stream is less than those of mature properties. As such, investment income from real estate investments declined 5% in 2006 compared with 2005. In 2005, following the sale of a substantial real estate holding in Arizona in late 2004, real estate income declined $5.2 million or 40%.

Short-term investment income increased $0.3 million in 2006 over 2005 and $0.8 million in 2005 compared with 2004.

The Company loans money to its policyholders, secured by the cash value of the policy. Investment income from policy loans declined by $0.5 million in 2006 and $0.6 million in 2005 from a total of $7.8 million in 2004. The decline in investment income from policy loans is directly related to the decline in the amount of loans outstanding.

The Company recorded net realized investment gains in 2006 of $5.6 million, down slightly from $6.1 million in 2005. In 2004, net realized investment gains were $45.9 million. The realized investment gains were primarily the result of the sale of real estate investment properties in all three years, including $4.2 million, $6.8 million and $44.7 million in realized investment gains from real estate in 2006, 2005 and 2004, respectively. The following table provides detail concerning realized investment gains and losses over the three years ended December 31.

Realized Investment Gains and Losses	2006	2005	2004
Gross gains resulting from:			
Sales of investment securities	$ 3,550	$ 3,991	$ 8,545
Investment securities called	1,142	989	1,242
Sales of real estate	4,159	7,678	44,735
Other investment gains	1	905	443
Total gross gains	8,852	13,563	54,965
Gross losses resulting from:			
Sales of investment securities	(1,151)	(6,009)	(8,237)
Write-downs of investment securities	(1,060)	-	(555)
Investment securities called	(593)	(599)	(476)
Sales of real estate	-	(927)	-
Other investment losses	(173)	-	(72)
Total gross losses	(2,977)	(7,535)	(9,340)
Amortization of DAC and VOBA	(254)	85	304
Realized investment gains	$ 5,621	$ 6,113	$ 45,929

The Company realizes investment gains and losses from several other sources. Many securities purchased by the Company contain call provisions, which allow the issuer to redeem the securities at a particular price. Depending upon the terms of the call provision and price at which the security was purchased, a realized gain or loss may be realized. Sales and calls of investments in securities resulted in net realized gains of $2.9 million in 2006, a realized loss of $1.6 million in 2005 and a realized gain of $1.1 million in 2004. Other sources of realized investment gains and losses include write-downs of investment securities, changes in the Company s valuation reserve for losses in the commercial mortgage portfolio and other miscellaneous investment gains and losses.

The Company has a long history of investing in real estate. Real estate investments were $110.8 million at December 31, 2006 and $81.9 million at December 31, 2005. Real estate investments consist principally of office buildings and industrial warehouses that are both in use and under development, and investments in multi-family and single-family residential properties, including affordable housing. The Company also invests in unimproved land for future development. Properties have been acquired through individual purchases, build-to-suit and speculative development, and acquisition of other life insurance company investment portfolios. The Company generally maintains its ownership interest in these properties with the long-term intention of earning positive cash flow and income by leasing the properties along with the expectation of realizing capital appreciation upon sale, as evidenced by realized investment gains from sales illustrated in the table above. The Company periodically sells certain real estate assets when management believes that the market and timing are perceived to be advantageous.

The following table provides credit quality information on fixed maturity securities as determined by one of the nationally recognized ratings firms as of December 31, 2006.

Investment Quality	Amortized Cost	Fair Value	% of Fair Value
Investment grade	$ 2,571,075	$ 2,568,942	94
Below investment grade (rated BB or lower)	147,885	150,497	6
	$ 2,718,960	$ 2,719,439	

The Company's analysis of securities at year-end 2006 resulted in the determination that one security had an other-than-temporary decline and was written down by $1.1 million. This security was below cost by 20% or more for more than twelve consecutive months. In 2005, the Company had no securities that it identified as other-than-temporarily impaired. One security was determined to be other-than-temporarily

impaired in 2004, and this security was written-down by $0.6 million. At year-end 2005 and 2004, there were no investment securities that were below cost by 20% or more for more than six consecutive months. For a discussion of unrealized losses see Note 2 Investments in the Notes to Consolidated Financial Statements.

The following table provides asset class detail of the investment portfolio. Fixed maturity and equity securities represented 80% of the entire investment portfolio at December 31, 2006 and 2005.

Percent of Invested Assets	2006		2005	
	Amount	%	Amount	%
Fixed maturity securities	$ 2,719,439	78	$ 2,865,476	79
Equity securities	52,351	1	52,775	2
Mortgage loans	472,019	14	458,668	13
Real estate	110,773	3	81,870	2
Policy loans	96,218	3	101,088	3
Short-term	41,037	1	46,383	1
Other	3,182	-	2,179	-
Total	$ 3,495,019	100	$ 3,608,439	100

The securities portfolio had unrealized gains before taxes of $2.7 million at year-end 2006 compared with $35.2 million at year-end 2005. The portfolio was broadly diversified across sectors. A variety of measures have been employed to manage the portfolio s credit and interest rate risks, as discussed later in this document in Item 7A Quantitative and Qualitative Disclosures About Market Risk.

Mortgage loans comprised 14% of the investment portfolio at December 31, 2006, up slightly from 13% of the investment portfolio at the end of 2005. Approximately 97% of the mortgages are commercial loans on industrial warehouses and office properties. None of the loans have been restructured nor have there been any loans in foreclosure over the past three years. Prepayments declined in 2006, as mortgage loan rates were higher than the prior year. The portfolio s carrying value exceeded its estimated fair value by $0.3 million at year-end 2006 but the estimated fair value exceeded the carrying amount by $7.7 million as of year-end 2005. The Company does not hold mortgage loans of any borrower that exceed 5% of stockholders equity.

Real estate investments represented approximately 3% of the investment portfolio at year-end 2006, up from 2% at year-end 2005. The real estate properties estimated fair value is well above the carrying value.

Policyholder Benefits

Policyholder benefits consist of death benefits (mortality), annuity benefits, accident and health benefits, surrenders and the associated increase or decrease in reserves for future policy benefits. Policyholder benefits declined $1.9 million or 1% in 2006 compared with 2005, as a result of the increase in benefits paid being more than offset by the decrease in the reserves established on these benefits. In addition, in 2006 a decrease in immediate annuity premiums resulted in a decrease in reserves for future policy benefits. Policyholder benefits declined $8.5 million or 5% in 2005 compared with 2004. The decline reflects lower death benefits and a decrease in immediate annuity premiums, which also resulted in a decrease in reserves for future policy benefits.

The largest component of policyholder benefits is death benefits. Death benefits increased 2% in 2006 compared with 2005 and increased 1% in 2005 versus 2004. Mortality increased in 2006 compared with 2005 but was less in 2005 compared with 2004. However, mortality was within the range of anticipated mortality experience for both years.

Policyholder benefits for the group accident and health product line increased $2.2 million or 11% in 2006 compared with 2005, largely as the result of an increase in group dental benefits paid. These same benefits declined in 2005, primarily due to the elimination of certain dental third-party marketing arrangements established in prior years.

Interest Credited to Policyholder Account Balances

Interest credited to policyholder account balances declined $4.0 million or 4% in 2006, and $4.8 million or 5% in 2005. Interest was credited to policyholder account balances for universal life, fixed deferred annuities and other investment-type products. The amount of interest credited is a function of the crediting rate and policyholder account balances. Policyholder account balances are impacted by deposits, benefits, surrenders and contract charges. The decline in interest credited for both 2006 and 2005 was due to the combination of reduced policyholder account balances and lower crediting rates. Policyholder account balances declined $87.3 million in 2006 and $17.4 million in 2005. The average interest rate credited to policyholder account balances was 4.32% in 2006, 4.37% in 2005 and 4.59% in 2004.

Amortization of Deferred Acquisition Costs (DAC) and Value of Business Acquired (VOBA)

The amortization of DAC was $34.9 million in 2006 compared with $35.6 million in 2005 and $36.1 million in 2004. The Company unlocked certain DAC assumptions which reduced amortization by $0.7 million in 2006, $2.2 million in 2005, $0.1 million in 2004. DAC profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. At least annually, a review is performed of the assumptions related to profit expectations. As warranted by a combination of historical results and expected future trends, the Company may unlock these assumptions and, accordingly, increase or decrease deferred acquisition costs.

During the fourth quarter of 2006, the Old American segment reduced its amortization of DAC by $1.2 million. This adjustment, which is a correction of an understatement of the capitalization of DAC in prior periods, is not material to the current or any prior period financial statements.

The amortization of VOBA was $6.7 million in 2006, $6.8 million in 2005 and $7.4 million in 2004.

Reinsurance

The Company reinsures certain risks with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. These arrangements include yearly renewable term agreements and coinsurance agreements. The Company enters into these agreements to assist in diversifying risks and to limit the maximum loss from risks on certain policies. The ceded reinsurance agreements do not relieve the Company of its obligations to its policyholders. As such, the Company monitors the ongoing ability of the reinsurers to perform under the terms of the reinsurance agreements.

Premiums are reported on a gross basis, with separate reporting for premiums ceded under reinsurance agreements. Policyholder benefits and expenses are reported net of reinsurance ceded, which included the following amounts.

	2006	2005	2004
Policyholder benefits and expenses ceded under reinsurance	$ 56,797	$ 56,327	$ 56,921

Future policy benefits and other related assets and liabilities are not reduced for reinsurance in the balance sheet. A reinsurance receivable is established for such balance sheet items. Reinsurance related to policy and claim reserves ceded of $143.5 million and $141.3 million, are included in the reinsurance receivables as of December 31, 2006 and 2005, respectively. Ceded benefits recoverable from reinsurers were $16.0 million and $14.8 million as of December 31, 2006 and 2005, respectively.

The Company s overall reinsurance strategy has not changed during the periods addressed in this report. However, the Company has implemented changes to its reinsurance on certain new products by reducing the amount of coverage that is reinsured. These changes have been made primarily due to the increased cost of reinsurance currently available in the market.

Operating Expenses

Operating expenses consist of commissions and production allowances, net of the capitalization of commission and production allowances, and expenses from the Company s operations. In total, operating expenses increased 4% in 2006 over 2005 but declined 7% in 2005 compared with

2004. Operating expenses increased in 2006 over 2005 primarily due to an increase in salary expense and employee and agent benefits. The decline in 2005 from 2004 reflects expense savings realized in the consolidation of GuideOne into the home office, reduced pension and postretirement benefit costs and reduced agent benefit plan expense.

Income Taxes

The Company recorded income tax expense of $14.3 million or 28% of income before tax in 2006, compared to income tax expense of $13.4 million or 27% of income before tax in 2005. The increase in the tax expense in 2006 versus 2005 was due to higher income before tax and the under accrual of prior year taxes, partially offset by a decrease in contingent tax liabilities. In 2004, the Company recorded an income tax expense of $24.0 million or 29% of income before tax for 2004. The decline in the tax expense in 2005 versus 2004 was the result of substantial realized investment gains recorded in 2004, primarily as a result of the substantial sale of real estate that occurred in 2004. Income taxes will fluctuate depending upon items such as net income, realized investment gains and losses and affordable housing tax credits.

The income tax rate in the three years was reduced by tax credits generated from the Company s investments in affordable housing. The effect of the affordable housing credits on the effective tax rate was a tax benefit of $2.9 million or 6% in 2006, $3.0 million or 6% in 2005 and $4.2 million or 5% in 2004.

The Company establishes contingent tax assets or liabilities, when appropriate, to provide for potential challenges by taxing jurisdictions. In 2006, the Company s income tax expense was reduced by $0.7 million or 1% of income before tax, due to a decrease in contingent tax liabilities relating to the 2003 through 2005 tax years. The Company reported no change in the tax contingency balance in 2004 and 2005.

Operating Results by Segment

The Company has three reportable business segments, which are defined based on the nature of the products and services offered: Individual Insurance, Group Insurance and Old American. The Individual Insurance segment consists of individual insurance products for both Kansas City Life and Sunset Life. The Individual Insurance segment is marketed through a nationwide sales force of independent general agents and third-party marketing arrangements. The Group Insurance segment consists of sales of group life, group disability, stop loss and dental products. This segment is marketed through a nationwide sales force of independent general agents, group brokers and third-party marketing arrangements. Old American consists of individual insurance products designed primarily as final expense products. These products are marketed through a nationwide general agency sales force with exclusive territories, using direct response marketing to supply agents with leads.

Individual Insurance

The following table presents financial data of the Individual Insurance business segment for the years ended December 31.

	2006	2005	2004
Insurance revenues:			
Premiums	$ 53,791	$ 58,001	$ 62,375
Contract charges	114,496	114,745	115,710
Reinsurance ceded	(41,069)	(40,584)	(38,193)
Total insurance revenues	127,218	132,162	139,892
Investment revenues:			
Net investment income	182,766	181,311	184,393
Realized investment gains	5,300	6,488	46,026
Other revenues	10,717	9,641	6,740
Total revenues	326,001	329,602	377,051
Policyholder benefits	95,603	99,294	106,087
Interest credited to policyholder account balances	94,648	98,637	103,464
Amortization of deferred acquisition costs and value of business acquired	29,904	29,011	29,779
Operating expenses	59,952	56,638	61,855
Total benefits and expenses	280,107	283,580	301,185
Income before income tax expense	45,894	46,022	75,866
Income tax expense	12,726	12,383	22,761
Net income	$ 33,168	$ 33,639	$ 53,105

This segment s direct insurance revenues (total insurance revenues excluding reinsurance ceded) are primarily derived from premiums on traditional insurance products and contract charges. Traditional insurance products principally include term life and immediate annuities. Contract charges are collected from interest sensitive insurance products, including universal life, fixed deferred annuities and variable life and annuities. In 2006, this segment received 32% of its direct insurance revenues from premiums on traditional products, down from 34% in 2005 and 35% in 2004. The decline in premiums has primarily been the result of lower sales of immediate annuities. Over the past three years, the Company has focused its distribution efforts on life insurance sales, and a declining volume of annuity sales has resulted.

This segment s products are primarily marketed through a nationwide sales force of independent general agents. The Individual Insurance segment is central to the Company s overall performance and generated 90% of consolidated net income in 2006. Customer revenues consist of insurance revenues and other revenues. This segment produced 56% of consolidated customer revenues in 2006.

Premium information is provided in the table below. New premiums declined $5.0 million or 27% in 2006, $2.1 million or 11% in 2005. The decline in 2006 was due to lower sales of immediate annuities resulting from increased competition and changing consumer preferences. In addition, new sales by GuideOne agents declined, primarily in response to a change in marketing emphasis by GuideOne Insurance to increase sales of property casualty policies. New premiums for individual life insurance were flat in 2006, as the growth in new life insurance sales through the Company s independent general agents offset the impact of reduced sales through GuideOne agents. New premiums for life insurance increased 5% in 2005. Premiums from immediate annuities declined $5.0 million or 41%, following a $2.0 million decline in 2005. Renewal premiums increased $0.8 million or 2% in 2006, after decreasing by 5% in 2005.

	2006	%	2005	%	2004
New premiums:					
Individual life insurance	$ 5,961	-	$ 5,944	5	$ 5,679
Immediate annuities	7,174	(41)	12,159	(14)	14,137
Individual accident and health insurance	-	-	-	(100)	416
Total new premiums	13,135	(27)	18,103	(11)	20,232
Renewal premiums	40,656	2	39,898	(5)	42,143
Total premiums	$ 53,791	(7)	$ 58,001	(7)	$ 62,375

Deposit information is provided in the table below. New deposits declined 26% in 2006 and 25% in 2005. New fixed deferred annuity deposits and variable annuity deposits declined 40% and 14% in 2006, and 29% and 23% in 2005, respectively. The lower sales of fixed deferred and variable annuity deposits can be attributed to increased competition, changing consumer preferences and the emergence of alternative products. New universal life deposits increased 1% in 2006 over 2005, and new variable universal life deposits increased 7% in 2006 compared with 2005. These same deposits declined 7% and 35%, respectively, in 2005 versus 2004. Universal life deposits have been a primary focus for sales and marketing as part of the increased emphasis on individual life products. This increase in individual life products was achieved in spite of a significant decline in sales from the GuideOne agents. As previously mentioned, the GuideOne sales decline was due to a change in marketing emphasis by GuideOne Insurance towards the sale of property casualty policies. Finally, a new marketing agreement was entered into during 2006 with American Republic, and its field force of nearly 600 agent representatives have begun to offer Kansas City Life products to its customers. It is anticipated that GuideOne and American Republic agents will contribute significantly to individual life sales in the future.

	2006	%	2005	%	2004
New deposits:					
Universal life insurance	$ 10,117	1	$ 10,004	(7)	$ 10,784
Variable universal life insurance	2,372	7	2,210	(35)	3,407
Fixed deferred annuities	29,815	(40)	49,698	(29)	69,769
Variable annuities	21,507	(14)	24,894	(23)	32,356
Total new deposits	63,811	(26)	86,806	(25)	116,316
Renewal deposits	139,139	(11)	155,807	1	154,817
Total deposits	$ 202,950	(16)	$ 242,613	(11)	$ 271,133

Insurance revenues decreased 4% in 2006 and 6% in 2005. A decline in immediate annuity sales, combined with slightly lower contract charges accounted for the revenue decrease. In 2005, a decline in new premiums, from lower sales of immediate annuities and an unlocking in contract charges, combined with an increase in reinsurance ceded premiums, accounted for the revenue decrease.

Contract charges declined $0.2 million in 2006 following a $1.0 million decrease in 2005. Contract charges declined in 2005 as the result of an unlocking adjustment. Contract charges consist of cost of insurance, expense loads, unearned revenues and surrender charges. Certain contract charges for universal life insurance are not recognized in income immediately but are deferred as unearned revenues and are amortized into income in a manner similar to the amortization of DAC. These contract charges, which are recorded as unearned revenues, are recognized into income in proportion to the expected future gross profits of the business. In the same manner as DAC, profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. At least annually, a review is performed of the assumptions related to profit expectations. If it is determined the assumptions should be revised, the impact is recorded as a change in the revenue reported in the current period as an unlocking adjustment.

Net investment income increased 1% in 2006 but declined 2% in 2005. Investment income is primarily driven by changes in interest rates, asset levels and investment expenses. Investment yields increased in 2006 over 2005 but declined in 2005 versus 2004. The asset level declined in 2006 but increased in 2005. In addition, investment expenses declined in 2006, reflecting reduced real estate expenses and a decline in interest expense from reduced notes payable.

Policyholder benefits consist of death benefits (mortality), annuity benefits, individual accident and health benefits, surrenders and the associated increase or decrease in reserves for future policy benefits. Policyholder benefits decreased

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$3.7 million or 4% in 2006 compared with 2005 and $6.8 million or 6% in 2005 versus 2004. Benefit payments in 2006 increased versus the prior year but were more than offset by the decrease in established reserves. In addition, immediate annuity premium receipts declined in both 2006 and 2005, which contributed to the decline in policyholder benefits because of the resulting decrease in reserves for future policy benefits.

Death benefits increased 5% in 2006 but declined 2% in 2005. Death benefits will fluctuate from period-to-period. Although death benefits increased in 2006 and 2005, both years were within the range of anticipated mortality.

Interest was credited to policyholder account balances for universal life, fixed deferred annuities and other investment-type products. The amount of interest credited is a function of the crediting rate and account balances. Account balances are impacted by deposits, benefits, surrenders and contract charges. Interest credited to policyholder account balances decreased $4.0 million in 2006 compared with 2005 and $4.8 million in 2005 versus 2004. The declines in both years were due to the combination of reduced policyholder account balances and lower crediting rates.

The amortization of deferred acquisition costs (DAC) has fluctuated over the past three years due to unlocking adjustments for assumption changes, that reflect increased expected profit margins in future years. The impact of unlocking adjustments on the amortization of DAC were reductions to amortization as follows: $0.7 million in 2006, $2.2 million in 2005, and $0.1 million in 2004. The amortization of the value of business acquired (VOBA) also decreases in line with the profit expectations on the acquired block of business. There were no unlocking adjustments for VOBA for the three years presented.

Operating expenses include commissions, net of the capitalization of certain commissions, expenses on operations and other expenses. Commissions and capitalization of those commissions decreased in both 2006 and 2005. Operating expenses increased $3.3 million in 2006 but decreased $5.2 million in 2005. Expenses increased in 2006 primarily due to an increase in salary expense and employee and agent benefits. In 2005, operating expenses decreased primarily due to expense savings realized from the consolidation of GuideOne into the home office, reduced pension and postretirement benefit costs and reduced agent benefit plan expense.

Net income in this segment decreased 1% in 2006 over 2005. Net income for 2005 decreased 37% compared with 2004. The decrease in 2006 reflected reduced revenues that were partially offset by reduced total benefits and expenses, and increased income taxes. The decrease in 2005 was primarily due to substantial realized investment gains in 2004. Income excluding realized investment gains, net of tax, increased 1% in 2006 compared with 2005 and 27% in 2005 versus 2004. These increases primarily reflect reduced policyholder benefits and interest credited to policyholder account balances. Non-insurance subsidiaries are included in this segment, but they are not material to results of the segment.

Group Insurance

The following table presents financial data of the Group Insurance business segment for the years ended December 31.

	2006	2005	2004
Insurance revenues:			
Premiums	$ 54,065	$ 50,783	$ 53,520
Reinsurance ceded	(9,488)	(9,913)	(10,552)
Total insurance revenues	44,577	40,870	42,968
Investment revenues:			
Net investment income	272	233	323
Other revenues	608	661	1,728
Total revenues	45,457	41,764	45,019
Policyholder benefits	28,596	25,950	27,959
Operating expenses	19,114	19,220	19,710
Total benefits and expenses	47,710	45,170	47,669
Loss before income tax benefit	(2,253)	(3,406)	(2,650)
Income tax benefit	(676)	(1,022)	(795)
Net loss	$ (1,577)	$ (2,384)	$ (1,855)

The Company offers several insurance products in the Group Insurance segment: dental, group life, short and long-term disability, and vision. The Group Insurance segment markets its group products primarily to small and mid-size organizations. Products are sold through group representatives targeting a nationwide network of independent general agents and group brokers, along with the Company s career general agents. This sales network is Group s core distribution system. Additionally, the Company enters into selective third-party marketing arrangements to market group products. In 2006, this segment generated 18% of the Company s customer revenues.

The group market is highly competitive and group policies are periodically reviewed to ensure they conform to target claims, expenses and profit objectives. Renewal terms that meet target pricing objectives are communicated to the group policyholder who may then decide to seek alternative bids from competing carriers.

As of year-end 2006, this segment exited the stop loss market. The stop loss product line was being offered through an independent managing general underwriter, which also provided third-party administration. During the fourth quarter of 2006, the independent managing general underwriter was acquired by another organization, which then terminated the agreement. The Company will continue to focus on its core products and services, but may re-enter the stop loss market at a later date.

On January 1, 2005, the Company sold its administrative claims paying services, KCL Benefit Solutions, to The Epoch Group, L. C. for $0.2 million in order to concentrate more directly on its core products. As a result of this sale, other revenues and operating expenses declined in 2005 compared to the prior year. Other revenues for the Group Insurance segment declined $1.1 million or 62% in 2005 compared with 2004.

The Group Insurance segment has experienced net losses in each of the three years presented. Improvement efforts continue to be focused in three primary areas. First, emphasis is being placed on growing the in-force business to achieve better expense ratios from fixed costs and overhead. This will be achieved through increased individual productivity of the existing group representatives and through a continued expansion of the group distribution system. The second area of focus for improvement is to increase the use of technology to achieve improved administrative efficiency and reduce expenses. The third area of focus is to add new products to the portfolio, particularly voluntary products

which tend to be more profitable and are increasingly becoming a larger share of the group marketplace.

Premium information is provided in the table below. New premiums increased 12% in 2006 over 2005. However, new premiums were down 18% in 2005 compared with 2004. The growth in premiums in 2006 was largely the result of a $2.4 million or 59% increase in dental premiums compared with 2005. This growth was the result of the focus on improved production through internal agents and representatives, one of the primary areas of targeted improvement. In

2005, the growth in new premiums for short-term disability and stop loss insurance was more than offset by a decline in new premiums for long-term disability and dental insurance. New group life premiums declined 23% in 2006 and 12% in 2005.

Renewal premiums increased $1.9 million or 5% in 2006, reflecting improved persistency and the recognition of previously unrecorded premiums from earlier periods of $0.6 million. An adjustment was reflected in the second quarter of 2006 that related to renewal premiums attributable to years 2003 through 2006. The unrecorded premiums in 2003, 2004 and 2005 were $0.1 million, $0.2 million and $0.3 million, respectively. Renewal premiums declined 1% in 2005 compared to 2004. Total group premiums increased $3.3 million in 2006 compared with a decline of $2.7 million or 5% in 2005.

	2006	%	2005	%	2004
New premiums:					
Group life insurance	$ 1,020	(23)	$ 1,327	(12)	$ 1,507
Group dental insurance	6,524	59	4,112	(31)	5,956
Group disability insurance	1,454	(26)	1,971	(38)	3,157
Group stop loss insurance	2,971	(10)	3,283	33	2,477
Other group insurance	318	29	246	49	165
Total new premiums	12,287	12	10,939	(18)	13,262
Renewal premiums	41,778	5	39,844	(1)	40,258
Total premiums	$ 54,065	6	$ 50,783	(5)	$ 53,520

The Company has used reinsurance in several of its group product lines to help mitigate risk. Reinsurance on premiums declined $0.4 million or 4% in 2006 and $0.6 million or 6% in 2005. As previously mentioned, the Company exited the stop loss market at the end of 2006. While new premiums for stop loss are shown in the table above, a major portion of these premiums was reinsured. Reinsurance ceded on stop loss premiums was significant in order to manage the potential risks associated with this product line and was $2.0 million in 2006, $2.3 million in 2005 and $1.6 million in 2004.

Insurance revenues increased $3.7 million or 9% in 2006 compared with 2005, reflecting increased premiums and reduced reinsurance ceded on premiums. In 2005, insurance revenues declined $2.1 million or 5% compared with 2004.

Policyholder benefits consist of death benefits (mortality), accident and health benefits and the associated increase or decrease in reserves for future policy benefits. Policyholder benefits increased $2.6 million or 10% in 2006, reflecting an increase in dental benefits and death benefits. Policyholder benefits declined $2.0 million or 7% in 2005, primarily due to the discontinuation of certain third-party marketing arrangements that did not meet profit expectations.

Operating expenses in this segment include commissions, expenses associated with operations, insurance related taxes and other expenses. Expenses associated with operations in this segment are specifically and directly identified, but also include allocated expenses. Operating expenses in this segment declined 1% in 2006 and 2% in 2005. The reduction in 2006 was due to reduced salary costs, as a result of a reduction in third-party arrangements and improvements in processing and technology. The reduction in operating expenses was achieved in spite of a $0.7 million increase in a legal expense contingency reserve and a $0.3 million increase in commissions over 2005. In 2005, the reductions were due to a decrease in commissions related to the decline in sales and a decrease in operating expenses due to reductions in staffing from the sale of the administrative claims paying services, KCL Benefit Solutions.

The net loss in the Group Insurance segment decreased $0.8 million or 34% in 2006, primarily resulting from improvement in insurance revenues. In 2005, the net loss increased $0.5 million compared with 2004, primarily due to the decline in revenues. The Company continues to pursue opportunities for revenue growth through improved productivity of group representatives and selective third-party marketing arrangements.

Old American

The following table presents financial data of the Old American business segment for the years ended December 31.

	2006	2005	2004
Insurance revenues:			
Premiums	$ 68,355	$ 71,107	$ 73,571
Reinsurance ceded	(4,422)	(5,100)	(5,745)
Total insurance revenues	63,933	66,007	67,826
Investment revenues:			
Net investment income	13,242	13,064	13,259
Realized investment gains (losses)	321	(375)	(97)
Other revenues	24	10	-
Total revenues	77,520	78,706	80,988
Policyholder benefits	43,596	44,449	44,142
Amortization of deferred acquisition costs and value of business acquired	11,730	13,418	13,698
Operating expenses	14,588	13,830	14,681
Total benefits and expenses	69,914	71,697	72,521
Income before income tax expense	7,606	7,009	8,467
Income tax expense	2,279	2,080	2,030
Net income	$ 5,327	$ 4,929	$ 6,437

The Old American segment sells final expense insurance products nationwide through its general agency system with exclusive territories. This segment provides agents with sales leads using direct response marketing. This segment produced 26% of consolidated customer revenues in 2006. Old American s net income increased 8% to $5.3 million in 2006, reflecting reduced policyholder benefits from improved mortality and a reduction in the amortization of deferred acquisition costs. Net income declined 23% to $4.9 million in 2005 from 2004, primarily from reduced premiums. In 2006 this segment provided 14% of consolidated net income.

Premium information is provided in the table below. New premiums decreased 12% in 2006 and 8% in 2005. The sale of final expense products is highly competitive and the decline in premiums reflects increased competition. Renewal premiums decreased 3% in both 2006 and 2005. Old American continues to focus on the recruitment and development of new agencies and agents, along with improved production from existing agencies and agents. In 2006, Old American made modifications to its product rate structure to improve its competitive positioning.

	2006	%	2005	%	2004
New premiums	$ 6,281	(12)	$ 7,148	(8)	$ 7,741
Renewal premiums	62,074	(3)	63,959	(3)	65,830
Total premiums	$ 68,355	(4)	$ 71,107	(3)	$ 73,571

Net investment income increased 1% in 2006, reflecting reduced investment expenses. The impact of increased investment yields was offset by reduced investment assets in 2006. In addition, reduced investment expenses, which largely resulted from reduced interest expense on notes payable, contributed to the increase in net investment income. Net investment income declined 1% or $0.2 million in 2005, due to the combination of lower investment yields and slightly lower investment asset levels. Old American had realized investment gains in 2006 of $0.3 million but had realized investment losses of $0.4 million in 2005.

Policyholder benefits consist of death benefits (mortality), accident and health benefits, surrenders, and the associated increase or decrease in reserves for future policy benefits. Policyholder benefits decreased 2% in 2006, reflecting

reduced mortality, but increased 1% or $0.3 million in 2005. Death benefits decreased in 2006 but increased in 2005. Partially offsetting the decrease in death benefits in 2006 was an increase in reserves.

The policyholder benefit ratio (policyholder benefits divided by total revenues, excluding realized investment gains and losses) remained consistent in 2006 compared with 2005 but was higher than 2004. Lower revenues, primarily from reduced premiums, more than offset the decreased policyholder benefits. These results are largely reflective of the combined effect of a decline in premiums and improved mortality over this timeframe.

	2006	2005	2004
Total revenue	$ 77,520	$ 78,706	$ 80,988
Less: Realized investment gains (losses)	321	(375)	(97)
Revenue excluding realized investment gains (losses)	77,199	79,081	81,085
Policyholder benefits	$ 43,596	$ 44,449	$ 44,142
Policyholder benefit ratio	56%	56%	54%

During the fourth quarter of 2006, the Old American segment reduced its amortization of DAC by $1.2 million. This adjustment, which is a correction of an understatement of the capitalization of DAC in prior periods, is not material to the current or any prior period financial statements.

Operating expenses include commissions and production allowances, net of the capitalization of certain commission and production allowances, and expenses from operations. Operating expenses increased in 2006, primarily reflecting increased agent costs from lead generation. Expenses declined in 2005 due to reduced salary and benefits, reflecting staffing fluctuations, reductions in leasehold expenses and a reduction in state insurance department fees.

Liquidity and Capital Resources

Liquidity

The Company meets liquidity requirements primarily through positive cash flows from operations. The Company has sufficient sources of liquidity to satisfy operational requirements. Primary sources of cash flow are premiums, other insurance considerations and deposits, receipts for policyholder accounts, investment sales and maturities, investment income and access to credit from other financial institutions. The principal uses of cash are for the insurance operations, including the purchase of investments, payments of insurance benefits, operating expenses, dividends, income taxes, withdrawals from policyholder accounts and costs related to acquiring new business.

Cash provided from operations in each of the three years ended 2006, 2005 and 2004 was $23.9 million, $44.4 million, and $30.0 million, respectively. Cash provided from operating activities decreased $20.4 million in 2006 compared with an increase in cash provided from operating activities of $14.3 million in 2005. In 2006 compared with 2005, cash provided from operations declined as premium receipts declined $3.8 million and claims paid to policyholders increased $10.7 million, offset by lower commissions paid to agents from premium and deposit activity of $2.4 million. Cash is also affected by changes in receivables and payables. At year-end 2006 compared with 2005, receivables increased $4.6 million while payables from claims declined $5.9 million, and payables and suspense items on ongoing operations decreased $6.1 million. Other liabilities increased $6.7 million in 2006, following a $7.3 million decrease in 2005. In 2005, the increase in cash provided from

operations in 2005 was largely due to reductions in claims payments and operating expenses.

Net cash provided by investing activities was $67.9 million in 2006 and $54.3 million in 2005, compared with net cash used of $48.3 million in 2004. The Company s investing activity decreased in 2006 and 2005. The Company s new investments in fixed maturity and equity securities were $285.4 million during 2006, down from $547.0 million during 2005 and $733.9 million in 2004. New investments in mortgage loans were $72.6 million in 2006, $109.6 million in 2005 and $72.3 million in 2004. During 2006, the Company increased its purchases of real estate investments to $45.1 million, up from $17.7 million in 2005 and $8.3 million in 2004. Approximately 13% of the securities portfolio was sold, called or matured in 2006, compared with 19% in 2005 and 20% in 2004. The Company had $59.1 million in

mortgage loan maturities or principal paydowns in 2006, compared with $82.4 million in 2005 and $98.7 million in 2004. During 2006, the Company had sales of real estate investments of $18.8 million, compared with $33.3 million in 2005 and $72.1 million in 2004. During each of these three years, the Company had several sales of real estate investments which resulted in realized gains. The largest sale of real estate occurred in December 2004, totaling $54.3 million, and resulted in a realized investment gain of $26.4 million, net of applicable taxes.

Net cash used in financing activities was $100.2 million in 2006, and $91.8 million in 2005. In 2004, $2.4 million of net cash was provided. In part, the increase in net cash used over the past three years was a decline in deposits on policyholder account balances, net of withdrawals. This was partially offset by increased transfers from separate accounts and decreased net repayment of borrowings. The net repayments of short-term notes payable were $12.6 million in 2006, $64.9 million in 2005 and $41.5 million in 2004. Deposits on policyholder account balances totaled $218.5 million in 2006, $265.2 million in 2005 and $293.5 million in 2004. Withdrawals on policyholder account balances were $294.3 million in 2006, $270.5 million in 2005 and $222.4 million in 2004. The increase in withdrawals over the three years was consistent with rising interest rates, changing consumer preference, increased competition and the emergence of alternative products. Finally, the Company s stockholder dividends have remained relatively consistent over the three years, as payments were $12.8 million in 2006, $12.9 million in 2005 and $13.0 million in 2004.

The above information excludes net proceeds from variable insurance products. These proceeds are segregated into separate accounts and are not held in the Company s general investments because the policyholders, rather than the Company, assume the underlying investment risks.

Separate Accounts

At December 31, 2006, the Company had $400.7 million in separate account assets. This is an increase of $32.9 million from $367.9 million at December 31, 2005. The increase was primarily the result of positive investment performance, which increased separate account assets by $52.0 million in 2006 and $25.1 million in 2005.

Deposits on separate accounts declined in 2006 to $46.8 million from $49.4 million in 2005 and $64.6 million in 2004.

Debt and Short-Term Borrowing

The Company and certain subsidiaries have access to borrowing capacity through their membership affiliation with the Federal Home Loan Bank of Des Moines (FHLB). At December 31, 2006, outstanding balances in notes payable to the FHLB were $14.7 million. All outstanding balances have maturities of less than one year. The primary purpose for these borrowings is to ensure access to liquidity. This is accomplished through the purchase of highly liquid marketable securities from the proceeds of these borrowings.

Borrowings were $14.7 million at year-end 2006, down from $27.3 million at year-end 2005. The decrease in borrowings is primarily due to reductions in borrowing from FHLB, which declined $11.5 million during 2006. The Company has access to unsecured revolving lines of credit of $60.0 million with two major commercial banks with no balances outstanding. Both lines of credit will expire during 2007, and it is expected that the Company will renew these facilities.

Capital Resources

The Company considers existing capital resources to be more than adequate to support the current level of business activities.

The following table shows the capital adequacy of the Company for the past two years.

	2006	2005
Total assets less separate accounts	$ 4,059,673	$ 4,190,512
Total stockholders' equity	684,304	680,219
Ratio of stockholders' equity to assets less separate accounts	17%	16%

The ratio of equity to assets less separate accounts has remained relatively constant. Net unrealized gains on available for sale securities, which are included as a part of stockholders equity, decreased $16.2 million and $34.6 million at December 31, 2006 and December 31, 2005, respectively.

The Company s statutory equity exceeds the minimum capital deemed necessary to support its insurance business, as determined by the risk based capital calculations and guidelines established by the National Association of Insurance Commissioners. The maximum stockholder dividends that can be paid out of stockholders equity in 2007 without prior approval of the Missouri Director of Insurance are $46.8 million - the statutory gain from operations at year-end 2006.

Stockholders equity per share, or book value, equaled $57.72 for year-end 2006, a 1% increase for the year. The Company has defined contribution plans for employees and agents whereby they may purchase shares of Company stock. Also, the Company makes contributions to these plans through the purchase of Company stock. The purchases and sales of Company stock for these purposes are handled as purchases and sales of treasury stock. Accordingly, in 2006, the benefit plans purchased 82,191 treasury stock shares for $4.2 million (2005 50,689 shares for $2.5 million) and sold 24,030 treasury stock shares for $1.1 million (2005 22,930 for $1.1 million).

The stock repurchase program was extended by the Board of Directors through January 2008 to permit the purchase of up to one million of the Company s shares on the open market, which would represent approximately 8% of the shares currently outstanding. During the fourth quarter of 2006, the Company repurchased 4,976 shares of its common stock at a total cost of approximately $0.2 million. No shares were purchased under this program in 2005 or 2004.

On January 29, 2007, the Board of Directors declared two dividends, including a quarterly dividend of $0.27 per share, unchanged from the prior year, and a special one-time dividend of $2.00 per share. Both dividends, totaling $26.9 million, were paid on February 13, 2007 to shareholders of record as of February 8, 2007.

Current legislative activities are not expected to have a significant impact on the ongoing operations of the Company.

Contractual Obligations

The following table summarizes the Company s information about contractual obligations by due date and expiration date as of December 31, 2006. Contractual obligations of the Company are those obligations fixed by agreement as to dollar amount and date of payment.

Contractual Obligations (amounts in millions)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Borrowings (1)	$ 14.7	$ 14.7	$ -	$ -	$ -
Operating lease obligations (2)	5.2	1.8	3.2	0.2	-
Purchase obligations (3)	0.9	0.9	-	-	-
Mortgage loan commitments and other investments (4)	15.6	15.6	-	-	-
Annuity certain contracts (5)	67.5	14.6	24.1	16.5	12.3
Insurance liabilities (6)	3,045.6	344.4	649.0	597.9	1,454.3
Total contractual obligations	$ 3,149.5	$ 392.0	$ 676.3	$ 614.6	$ 1,466.6

(1) Borrowings include short-term debt as described in the previous section Debt and short-term borrowing.

(2) As a lessee, the Company leases its mainframe computer and certain related support equipment. The Company is also a lessee of an office building with a 20-year lease that began in 1989 with two five-year renewal options. In 1998, the Company assigned the interest in the lease to a third-party for the remainder of the lease period.

(3) Purchase obligations include contracts where the Company has a non-cancelable commitment to purchase goods and services.

(4) Mortgage loan commitments to provide funding to originate commercial mortgage loans. Mortgage loan commitments generally do not extend beyond 90 days. Other investments are primarily commitments for real estate investments.

(5) Annuity certain contracts are those insurance liabilities (included in future policyholder benefits and policyholder contract balances), which do not have life contingencies and have scheduled payments. Annuity certain contracts without life contingencies consist of single premium immediate annuities, supplementary contracts and structured settlements.

(6) Insurance liabilities consist primarily of future policyholder benefits and policyholder contract balances for which the timing of cash flows is uncertain and which have life contingencies. The schedule of payments for these liabilities can vary significantly because of the uncertainty of the timing of cash flows, which depend upon insurable events or policyholder surrenders.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company holds a diversified portfolio of investments that includes cash, bonds, preferred stocks, mortgage-backed securities, commercial mortgages and real estate. Each of these investments is subject, in varying degree, to market risks that can affect their return and their fair value. A majority of these assets are debt instruments of corporations or U.S. Government Sponsored Enterprises (GSE) and are considered fixed income investments. Thus, the primary market risks affecting the Company s portfolio are interest rate risk, credit risk and liquidity risk.

Interest rate risk arises from the price sensitivity of investments to changes in interest rates. Coupon and dividend income represent the greatest portion of an investment s total return for most fixed income instruments in stable interest rate environments. The changes in the fair market price of such investments are inversely related to changes in market interest rates. As interest rates fall, the coupon and dividend streams of existing fixed rate investments become more valuable and market values rise. As interest rates rise, the opposite effect occurs.

The net unrealized gain on the Company s investment portfolio decreased in 2006, primarily due to increasing interest rates. At year-end, the fair value of the securities exceeded its book value by $2.7 million.

Due to the complex nature of interest rate movements and their uneven effects on the value of fixed income investments, the Company uses sophisticated computer programs to help consider potential changes in the value of the portfolio. Assuming that changes occur equally over the entire term structure of interest rates or yield curve, it is estimated that a 100 basis point increase in rates would translate to a $131.6 million loss of fair value for the $2.8 billion securities portfolio. Conversely, a 100 basis point rate decrease would translate to a $128.6 million increase in fair value.

Market changes rarely follow a linear pattern in one direction for any length of time. Within any diversified portfolio, an investor will likely find embedded options, both puts and calls, that change the structure of the cash flow stream. Mortgage-backed securities are particularly sensitive to interest rate changes. As long-term interest rates fall, homeowners become more likely to refinance their mortgage or move up to a larger home, causing a prepayment of the outstanding mortgage principal, which must then be reinvested at a lower rate. Should interest rates rise suddenly, prepayments expected by investors may decrease, extending the duration of a mortgage pool. This represents a further interest rate risk to investors.

As interest rates rise, policyholders may become more likely to surrender policies or to borrow against cash values, often to meet sudden needs in an inflationary environment or to invest in higher yielding opportunities elsewhere. This risk of disintermediation may force the Company to liquidate parts of its portfolio at a time when the fair value of fixed income investments is falling. If interest rates fall, the Company may also be forced to invest new cash receipts at levels below the minimum guaranteed rates payable to policyholders, eroding profit margins. The Company can usually adapt to small sudden changes in interest rates or even large changes that occur over longer periods of time. However, cash flow may increase or decrease over the course of the business cycle. Therefore, the Company takes steps to ensure that adequate liquidity is available to meet obligations in a timely manner. To this end, the Company utilizes an asset/liability management program, and the Company maintains lines of credit with commercial banks and other short-term borrowing arrangements with financial institutions.

The majority of the Company s investments are exposed to varying degrees of credit risk. Credit risk is the risk that the value of the investment may decline due to deterioration in the financial strength of the issuer and that the timely or ultimate payment of principal or interest might not occur. A default by an issuer usually involves some loss of principal to the investor. Losses can be mitigated by timely sales of affected securities or by active involvement in a restructuring process. However, there can be no assurance that the efforts of an investor will lead to favorable outcomes in a bankruptcy or restructuring. Information about the write-down of investment securities is provided in the table of Realized Investment Gains and Losses, under the section Consolidated Results of Operations in Item 7 - Management s Discussion and Analysis

of Financial Condition and Results of Operations.

The Company mitigates credit risk by diversifying the investment portfolio across a broad range of issuers, investment sectors and security types, and by limiting the amount invested in any particular entity. With the exception of certain GSE s, there is no exposure to any single corporate issuer greater than one percent of assets on a book value basis. The Company also invests in securities collateralized by physical assets. These securities can improve the likelihood of payment according to contractual terms and increase recovery amounts in the case of bankruptcy or restructuring.

The Company currently holds $154.6 million of foreign bonds. The foreign securities do not expose the Company directly to foreign currency risk, as the securities are denominated in U.S. dollars. As a result, the foreign currency risk lies with the issuer of the securities and may expose the issuer to fluctuations in the foreign currency market.

As market interest rates fluctuate, so will the value of the Company's investment portfolio and its stockholders' equity. At December 31, 2006, the Company had an unrealized investment gain of $1.2 million (net of related taxes, policyholder account balances and deferred acquisition costs), compared to $17.5 million at year-end 2005. This decrease was primarily the result of increases in interest rates.

Asset/Liability Management

Kansas City Life s asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines, cash flow testing under various interest rate scenarios to evaluate the potential sensitivity of assets and liabilities to interest rate movements, and the continuous rebalancing of assets and liabilities with respect to yield, risk, and cash flow characteristics.

Kansas City Life believes its asset/liability management programs and procedures, along with certain product features, provide protection for the Company against the effects of changes in interest rates under various scenarios.

Cash flows and effective durations of the asset and liability portfolios are measured at points in time and are affected by changes in the level and term structure of interest rates, as well as changes in policyholder behavior. Further, durations are managed on an individual product level, as well as an aggregate portfolio basis. As a result, differences typically exist between the duration, cash flows and yields of assets versus liabilities on an individual portfolio and aggregate basis. The Company s asset/liability management programs and procedures enable management to monitor the changes, which have both positive and negative correlations among certain portfolios, and to make adjustments to asset mix, liability crediting rates and product terms so as to manage risk and profitability over time.

The Company performs cash flow scenario testing through models of its in-force business. These models reflect specific product characteristics and include assumptions based on current and anticipated experience regarding the relationships between short-term and long-term interest rates (i.e., the slope of the yield curve), credit spreads, market liquidity and other factors, including policyholder behavior in certain market conditions. In addition, these models include asset cash flow projections, reflecting interest payments, sinking fund payments, principal payments, bond calls and mortgage prepayments.

The Company has a risk that the asset or liability portfolio performance may differ from forecasted results as a result of unforeseen economic circumstances, estimates or assumptions that prove incorrect, unanticipated policyholder behavior or other factors. The result of such deviation of actual versus expected performance could include excess or insufficient liquidity in future periods. Excess liquidity, in turn, could result in reduced profitability on one or more product lines. Insufficient liquidity could result in the need to generate liquidity through borrowing, asset sales or other means. The Company believes that adherence to its asset/liability management programs will provide sufficient liquidity to enable it to fulfill its obligation to pay benefits under its various insurance and deposit contracts. On a historical basis, the Company has not needed to liquidate assets to ensure sufficient cash flows. The Company maintains borrowing lines on a secured and unsecured basis to provide additional liquidity, if needed.

The Company markets certain variable products. The policyholder assumes essentially all the investment earnings risk for the portion of the account balance invested in the separate accounts. However, the Company assesses certain charges based on the policy account values and changes to the account values can affect the Company's earnings. The portion of the policyholder's account balance invested in the fixed general account, if any, is affected by many factors, including the absolute level of interest rates, relative performance of the fixed income and equity markets, spreads between interest yields on investments and rates credited to the policyholder's accounts, and changes in consumer preferences.

Expected Cash Flows

The table below details the nature of expected cash flows from the securities portfolio, including the cash flows from mortgage-backed securities pools, corporate bonds and commercial mortgages. Calls and prepayments represent the principal amount expected to return to the Company. Total principal equals invested cash scheduled to return in each year, including maturities, calls, sinking funds and prepayments.

Expected Cash Flows

(amounts in millions)

	2007	2008	2009	2010	2011	There-after	Total Principal	Fair Value
Corporate bonds currently callable	$25	$5	$1	$-	$4	$10	$45	$45
Average interest rate	7.36%	5.28%	4.14%	- %	5.04%	5.78 %	6.50 %	
Mortgage-backed securities and CMO's	109	84	66	41	43	298	641	597
Average interest rate	4.99%	5.15%	5.04%	5.50%	5.41%	5.25 %	5.20 %	
All other securities	207	158	172	156	157	1,159	2,009	2,130
Average interest rate	5.09%	5.68%	5.75%	5.51%	6.04%	5.95 %	5.81 %	
Investment securities	341	247	239	197	204	1,467	2,695	2,772
Average interest rate	5.22%	5.49%	5.55%	5.51%	5.89%	5.82 %	5.68 %	
Mortgages	23	31	37	39	52	290	472	472
Average interest rate	7.65%	6.79%	6.94%	6.73%	7.10%	6.46 %	6.67 %	
Total	$364	$278	$276	$236	$256	$1,757	$3,167	$3,244
Average interest rate	5.37%	5.63%	5.74%	5.71%	6.14%	5.92 %	5.82 %	

Item 3. PROPERTIES

The Company s home office is located at 3520 Broadway in Kansas City, Missouri. The Company owns and wholly occupies two five-story buildings on an eight-acre site.

The Company owns various other properties held for investment.

Item 4. SECURITY OWNERSHIP BY DIRECTORS, OFFICERS AND CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of December 31, 2006 concerning each director and director nominee, each executive officer listed in the summary compensation table and each person or group owning more than five percent of the outstanding shares on the date indicated certain beneficial owners of voting securities of the Company's $1.25 par value common stock (common stock). The common stock is the Company s only class of voting securities. As described in the notes to the table set forth below, certain named persons share the power of voting and disposition with respect to certain shares of common stock. Consequently, such shares are shown as being beneficially owned by more than one person.

Name and Address	Shares Beneficially Owned		Percent of Class
5% Beneficial Owners:			
Angeline I. Bixby	3,105,563	(3)(8)(11)	26.2
10453 S. Oakcrest Lane			
Olathe, KS 66061			
JRB Interests, Ltd.	2,966,312	(4)(8)	25.0
3520 Broadway			
Kansas City, MO 64111-2565			
Lee M. Vogel	2,973,410	(4)(5)(8)	25.0
4701 N.W. 59th Court			
Kansas City, MO 64151			
Mark A. Milton, Tracy W. Knapp, and Charles R. Duffy, Jr.	704,290	(1)	5.9
Trustees of the Kansas City Life Insurance Company Savings and Profit Sharing Plan and the Kansas City Life Employee Stock Plan and the Kansas City Life Agents Stock Bonus Plan			
3520 Broadway			

Kansas City, MO 64111-2565			
Nancy Bixby Hudson	2,966,312	(8)(15)	27.8
425 Baldwin Creek Rd.	331,568	(8)(9)	
Lander, WY			
Richard L. Finn	2,957,291	(6)(8)	25.0
10106 N.W. 74th St.			
Kansas City, MO 64152			
WEB Interest, Ltd.	2,358,340	(2)(8)	19.9
3520 Broadway			
Kansas City, MO 64111-2565			
Webb R. Gilmore	2,957,767	(7)(8)	25.0
833 W. 53rd St.			
Kansas City, MO 64112			

Name and Address	Shares Beneficially Owned		Percent of Class
R. Philip Bixby	2,358,340	(8)(11)(16)	26.3
3520 Broadway	21,816	(8)(10)	
Kansas City, MO 64111-2565	393,535	(8)(14)	
	345,286	(8)(17)	
Walter E. Bixby	2,358,340	(8)(11)(12)	26.4
3520 Broadway	11,015	(8)(10)	
Kansas City, MO 64111-2565	393,535	(8)(14)	
	370,176	(8)(13)	
Directors and Executive Officers:			
William R. Blessing	100		*
Michael Braude	100		*
Charles R. Duffy	3,211	(10)	*
Warren J. Hunzicker, M.D.	300		*
Daryl D. Jensen	939		*
Tracy W. Knapp	976	(10)	*
Donald E. Krebs	2,531	(10)	*
Cecil R. Miller	100		*
Mark A. Milton	9,673	(10)	*
Bradford T. Nordholm	250		*
William A. Schalekamp	6		*
	14,086	(10)	
E. Larry Winn, Jr.	332		*
All Directors, Director Nominees, executive officers as a group (17 Persons)	6,815,761		57.5

———————

*Less than 1%.

(1) Trustees have the power to sell plan assets. Participants may instruct the Trustees how to vote their shares.

(2)

The WEB Interests, Ltd. is a Texas limited partnership (the WEB Partnership). Each partner of the WEB Partnership has the power to vote that number of shares of Common Stock owned by the WEB Partnership which equals such partner s proportionate interest in the WEB Partnership.

(3) Includes 2,358,340 shares for which Angeline I. Bixby (Ms. Bixby) shares the power of disposition as a general partner of the WEB Partnership. Of these shares, Ms. Bixby: (a) as a general partner of the WEB Partnership, in her capacity as a co-trustee of the Walter E. Bixby, Jr. Revocable Trust, shares the power to vote 1,950,536 shares; (b) as the sole trustee of the Angeline I. Bixby GST Trust and the Issue Trust for Angeline I. Bixby, which trusts are limited partners of the WEB Partnership, has the power to vote 135,740 shares; and (c) as an individual general partner of the WEB Partnership, has the sole power to vote 195 shares. Also includes: (a) 393,535 shares for which Ms. Bixby, as a co-trustee (with R. Philip Bixby and Walter E. Bixby) of the Walter E. Bixby Descendants Trust, shares the power to vote and the power of disposition; and (b) 353,688

shares which Ms. Bixby owns directly and has the sole power to vote and the sole power of disposition.

(4) The JRB Interests, Ltd. is a Texas limited partnership (the JRB Partnership). Each partner of the JRB Partnership has the power to vote that number of shares of Common Stock owned by the JRB Partnership which equals such partner s proportionate interest in the JRB Partnership.

(5) Includes 2,966,312 shares for which Lee M. Vogel (Mr. Vogel), as a general partner of the JRB Partnership, shares the power of disposition. Of these shares, Mr. Vogel: (a) as a general partner of the JRB Partnership, in his individual capacity, has the sole power to vote 232 shares; and (b) as a co-trustee (with Richard L. Finn and Webb R. Gilmore) of the Issue Trust for Lee M. Vogel, a limited partner of the JRB Partnership, shares the power to vote 1,006,201 shares. Also includes 1,300 shares for which Mr. Vogel, as a joint tenant with right of survivorship with MM Bixby, shares the power to vote and the power of disposition. Mr. Vogel disclaims pecuniary interest in 1,960,715 shares owned by the partnership. Also includes 5,798 shares beneficially owned by Mr. Vogel as sole trustee of the Lee M. Vogel Revocable Trust dated March 15, 2005.

(6) Richard L. Finn and Webb R. Gilmore share the power to vote (a) 1,951,067 shares with Nancy Hudson, as co-trustees of the Nancy Bixby Hudson GST Trust and the Issue Trust for Nancy Bixby Hudson, which trusts are limited partners of the JRB Partnership; (b) 1,006,201 shares with Lee M. Vogel, as co-trustees of the Issue Trust for Lee M. Vogel, a limited partner of the JRB Partnership, and (c) also includes 24 shares which Mr. Finn owns directly and has the sole power to vote and the sole power of disposition, that are not in the voting agreement.

(7) Richard L. Finn and Webb R. Gilmore share the power to vote (a) 1,951,067 shares with Nancy Hudson, as co-trustees of the Nancy Bixby Hudson GST Trust and the Issue Trust for Nancy Bixby Hudson, which trusts are limited partners of the JRB Partnership; (b) 1,006,201 shares with Lee M. Vogel, as co-trustees of the Issue Trust for Lee M. Vogel, a limited partner of the JRB Partnership, and (c) also includes 500 shares which Mr. Gilmore owns directly and has the sole power to vote and the sole power of disposition, that are not in the voting agreement.

(8) As reported on a Schedule 13D filed by the Bixby Family Group with the Securities and Exchange Commission on November 2, 2004, the sole voting power for all shares described herein is held by Mr. Lee M. Vogel pursuant to a voting agreement dated October 31, 2004. He has the sole voting power for 7,167,006 shares.

(9) Ms. Hudson, as sole trustee of the Nancy Bixby Hudson Trust dated December 11, 1997, has the sole power to vote and the sole power to dispose of these shares.

(10) Approximate beneficial interest in shares held by the Trustees of Kansas City Life Insurance Company employee benefit plans. Participants have the power to vote the shares held in their account.

(11) As general partners of the WEB Interests, Ltd., a Texas limited partnership (the WEB Partnership), Walter E. Bixby, R. Philip Bixby and Angeline I. Bixby, share the power to dispose of these shares, which are owned by the WEB Partnership. As general partners, in their capacity as co-trustees of the WEB Trust, Walter E. Bixby, R. Philip Bixby and Angeline I. Bixby share the power to vote 2,358,340 of these shares.

(12) Includes (a) 195 shares for which Walter E. Bixby, as an individual general partner of the WEB Partnership, has the sole power to vote; and (b) 135,740 shares for which Walter E. Bixby, as the sole trustee of the Walter E. Bixby, III GST Trust and the Issue Trust for Walter E. Bixby, III, which trusts are limited partners of the WEB Partnership, has the power to vote.

(13) Includes (a) 348,380 shares which Walter E. Bixby owns directly and has the sole power to vote and the sole power of disposition; and (b) 21,796 shares for which Walter E. Bixby, as custodian for certain of his minor nieces and nephews, has the sole power to vote and the sole power of disposition.

(14) These shares are held in the Walter E. Bixby Descendants Trust. R. Philip Bixby, Walter E. Bixby and Ms. Angeline I. Bixby are the co-trustees of this trust and share the power to vote and the power to dispose of these shares. The terms of the trust restrict the transfer of these shares.

(15) Includes 2,966,312 shares for which Ms. Hudson, as a general partner of JRB Interests, Ltd., a Texas limited partnership (the JRB Partnership), shares with the other general partners of the JRB Partnership, the power of

disposition of these shares, which are owned by the JRB Partnership. Ms. Hudson (a) as a general partner of the JRB Partnership, has sole power to vote 232 of these shares; and (b) as a co-trustee (with Richard L. Finn and Webb R. Gilmore) of the Nancy Bixby Hudson GST Trust and the Issue Trust for Nancy Bixby Hudson, which trusts are limited partners of the JRB Partnership, shares the power to vote 1,951,067 of these shares. Ms. Hudson disclaims pecuniary interest in 1,014,549 shares owned by the partnership.

(16) Includes (a) 195 shares for which R. Philip Bixby as an individual general partner of the WEB Partnership, has the sole power to vote; and (b) 135,740 shares for which R. Philip Bixby, as sole trustee of the R. Philip Bixby GST Trust and the Issue Trust for R. Philip Bixby, which trusts are limited partners of the WEB Partnership, has the power to vote.

(17) Includes: (a) 337,114 shares which R. Philip Bixby owns directly and has the sole power to vote and the sole power of disposition; and (b) 8,172 shares for which R. Philip Bixby, as custodian for certain of his minor nieces and nephews, has the sole power to vote and the sole power of disposition.

Item 5. DIRECTORS AND EXECUTIVE OFFICERS

Election of Directors

It is the intention of the persons named in the enclosed proxy form to vote such proxy for the election of nominees for directors, listed hereafter, for the term indicated. If for any reason the nominee shall become unavailable for election, the persons named in the enclosed proxy will vote for such substituted nominee or nominees as are selected by the Board of Directors pursuant to the Company s Bylaws.

Information Concerning Directors

Our Board is authorized for 15 persons divided into three classes serving staggered terms of three years. The names of the Company s Directors and information about them are set forth below.

CANDIDATES NOMINATED BY THE BOARD FOR A THREE YEAR TERM

William R. Blessing (Age 51) Member of the: Compensation Committee	Mr. Blessing has been a Director of the Company since 2001. Mr. Blessing is currently Senior Vice President, Corporate Strategy and Development, Embarq, a position he has held since the company became independent in 2006. He has held similar duties with Sprint and related entities in various capacities since 1981. He also serves on the Board of various charitable groups.
Richard L. Finn (Age 65) Member of the: Executive Committee	Mr. Finn has been a Director of the Company since 2004. He was elected Vice President in 1976; Financial Vice President in 1983; and to Senior Vice President, Finance in 1984. He previously served as a Director of the Company from 1983 to 2002 when he retired from the Company.
Cecil M. Miller (Age 73)	Mr. Miller has been a Director of the Company since 2001. Mr. Miller is a retired partner of KPMG LLP (formerly Peat,

Member of the: Audit Committee (Chairman)	Marwick, Mitchell & Co.) He joined KPMG in 1957 and became an audit partner specializing in insurance and agribusiness. He retired in 1990.
Bradford T. Nordholm (Age 50) Member of the: Audit Committee	Mr. Nordholm has been a Director of the Company since 2004. Mr. Nordholm is CEO of Starwood Energy Group Global LLC. He had previously been CEO of TYR Energy, Inc. and TYR Capital, LLC. He also served as Senior Vice President/General Manager Capacity Services for Aquila, Inc.

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DIRECTORS ELECTED APRIL 21, 2005 FOR A THREE YEAR TERM

Walter E. Bixby
(Age 48)
Member of the:
Nominating Committee

Mr. Bixby has been a Director of the Company since 1996. Mr. Bixby was elected Assistant Vice President of the Company in 1985; Vice President, Marketing in 1990; Vice President Marketing Operations in 1992; Vice Chairman of the Board in 2005 and President of Old American, a subsidiary, in 1996. Mr. Bixby is the brother of R. Philip Bixby and the cousin of Nancy Bixby Hudson. He also serves as a Director of Sunset Life, Old American and Sunset Financial Services, subsidiaries.

Webb R. Gilmore
(Age 62)
Member of the:
Executive Committee
Nominating Committee

Mr.Gilmore has been a Director of the Company since 1990. Mr. Gilmore is Chairman and Shareholder of the law firm of Gilmore & Bell.

Nancy Bixby Hudson
(Age 54)

Ms. Hudson has been a Director of the Company since 1996. Ms. Hudson is the cousin of R. Philip Bixby and Walter E. Bixby. She has served as a Director of Sunset Life since 1986 and as a Director of Old American since 2005. She is an investor.

Daryl D. Jensen
(Age 67)
Member of the:
Audit Committee
Compensation Committee
(Chairman)

Mr. Jensen has been a Director of the Company since 1978. Mr. Jensen served as President of Sunset Life, a subsidiary of Registrant, from 1973 until his retirement in 1999. Mr. Jensen serves as a Director of Sunset Life. He also is on the Board of Directors of Central Valley Bank, Heritage Financial Corporation, Panorama City Corporation, and is Vice President, Finance of Western Institutional Review Board.

William A. Schalekamp
(Age 62)
Member of the:
Executive Committee

Mr. Schalekamp has been a Director of the Company since 2002. He joined the Company in 1971. He was elected Assistant Counsel in 1973; Associate Counsel in 1975; Assistant General Counsel in 1980; Associate General Counsel in 1984; Vice President and Chief Compliance Officer/Associate General Counsel in January 2002, and to his present position in April 2002. He is responsible for the Legal Department, Office of the Secretary, Stock Transfer Department, and Market Compliance.

DIRECTORS ELECTED APRIL 20, 2006 FOR A THREE YEAR TERM

R. Philip Bixby
(Age 53)
Member of the:
Executive Committee
(Chairman)
Nominating Committee

Mr. Bixby has been a Director of the Company since 1985. He was elected Assistant Secretary in 1979; Assistant Vice President in 1982; Vice President in 1984; Senior Vice President, Operations in 1990; Executive Vice President in 1996; President and CEO in April 1998, Vice Chairman of the Board in January 2000 and Chairman of the Board in 2005. Mr. Bixby is the brother of Walter E. Bixby and the cousin of Nancy Bixby Hudson. He is also Chairman and President of Sunset Life, Chairman of Old American and Director of Sunset Financial

Services, subsidiaries.

Warren J. Hunzicker, M.D. (Age 86)	Dr. Hunzicker has been a Director of the Company since 1989. Dr. Hunzicker served as the Company s Medical Director from 1987 to 1989. He formerly served as a member of the Company s Board of Directors from 1977 to 1980.

Tracy W. Knapp (Age 44) Member of the: Executive Committee	Mr. Knapp has been a Director of the Company since 2002. Mr. Knapp is Senior Vice President, Finance, and Chief Financial Officer. He is responsible for the investment of the Company s funds, accounting and taxes. Mr. Knapp joined the Company in 1998 and was responsible for developing a banking subsidiary. He was elected President and CEO of Generations Bank when it was chartered in July 2000. From 1991 to 1998, he held several positions with U.S. Credit Union including Vice President, Finance and Controller. He is also Director of Sunset Life and Old American, subsidiaries.
E. Larry Winn, Jr. (Age 87) Member of the: Executive Committee	Mr. Winn has been a Director of the Company since 1985. Mr. Winn is retired as the Kansas Third District Representative to the U.S. Congress.
Michael Braude (Age 70) Member of the: Compensation Committee	Mr. Braude has been a Director of the Company since 2006. From 1984 to 2000, he was President and CEO of the Kansas City Board of Trade. Mr. Braude also serves as a director of the Kansas City Board of Trade, Midwest Trust Co., Midwest Grain Products, Inc., and

Hodgson Company. He is a past chairman of the National Grain Trade Council. He is a trustee of the Kansas Public Employees Retirement Fund, and a trustee of Midwest Research Institute. He writes a weekly column for the Kansas City Business Journal.

EXECUTIVE OFFICERS

Name, Age and Position	Business Experience During Past 5 Years
R. Philip Bixby, 53 President, CEO and Chairman of the Board (PEO)	See Directors Elected April 20, 2006 for a three year term.
Walter E. Bixby, 48 Vice Chairman of the Board	See Directors Elected April 21, 2005 for a three year term.
Donald E. Krebs, 49 Senior Vice President, Sales & Marketing	Elected Senior Vice President, Sales & Marketing in April 2004. Served as Vice President, Agency Marketing 2001- 2004, and Regional Vice President 1996-2001. Responsible for Individual Sales & Marketing efforts for Kansas City Life. Director and Vice President of Sales & Marketing for Sunset Life; Director and Vice President of Sunset Financial Services, subsidiaries.

Tracy W. Knapp, 44 Senior Vice President, Finance (PFO)	See Directors Elected April 20, 2006 for a three year term.
Mark A. Milton, 48 Senior Vice President and Actuary	Elected Assistant Actuary in 1984; Assistant Vice President Associate Actuary in 1987; Vice President Associate Actuary in 1989; Vice President and Actuary in January 2000; and to present position in January 2001. Responsible for Actuarial Services, State Compliance and Group. Director, Vice President and Actuary of Sunset Life and Director of Old American, subsidiaries.

EXECUTIVE OFFICERS CONTINUED

Name, Age and Position	Business Experience During Past 5 Years
W. David Phillips, 54 Vice President, Group	Elected Vice President, Group in 2006. Served as Assistant Vice President, Group Actuary since 2003. Responsible for group sales and products. From 2002 - 2003, he was the owner of Strider, Inc. He also served as Vice President and Actuary of Fidelity Security Life Insurance Company from 2001-2002.
Charles R. Duffy, Jr., 59 Senior Vice President, Operations	Elected Vice President, Computer Information Services in 1989; Vice President, Insurance Administration in 1992; and to present position in 1996. Responsible for the Company s Computer Operations, Customer Services, Claims, Agency Administration, New Business, Medical, Underwriting, Human Resources, Facility Services, Distribution Services, Printing and Office Services. Director of Sunset Life, Sunset Financial and Old American, subsidiaries.
Brent C. Nelson, 55 Vice President and Controller	Elected Vice President and Controller in 2003. Chief Accounting Officer responsible for all corporate accounting reports. From 2000 to 2003, he served as Senior Vice President and Controller of Massachusetts Mutual Life Insurance Company.
William A. Schalekamp, 62 Senior Vice President, General Counsel and Secretary	See Directors Elected April 21, 2005 for a three year term.

Item 6. EXECUTIVE COMPENSATION

COMPENSATION DISCLOSURE AND ANALYSIS

Overview

This compensation discussion describes the material elements of compensation awarded to, earned by, or paid to each of our executive officers who served as named executive officers during the last completed fiscal year. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year, but we also describe compensation actions taken before or after the last completed fiscal year to the extent it enhances the understanding of our executive compensation disclosure.

The Compensation Committee s Responsibilities

The Compensation Committee of the Board is responsible for oversight of the Company s executive compensation and benefit policies to ensure that they provide the appropriate motivation to achieve superior corporate performance and stockholder value. The Committee performs an annual evaluation of the Principal Executive Officer s performance compared to pre-established performance goals and objectives, and recommends compensation actions impacting executive officers and directors to the Board.

The Committee is composed entirely of directors. Reports of the Committee s actions and recommendations are presented to the full Board after each meeting. The purpose of this analysis is to summarize the philosophical principles, specific program elements and other factors considered by the Committee in making decisions about executive compensation. The Committee has engaged the Hay Group an independent executive compensation consultant to advise it on compensation matters and information is provided to it by management including the Principal Executive Officer and the Senior Vice President/Operations.

Compensation Philosophy

The Committee s guiding philosophy is to establish a compensation program that will enable the attraction, development, and retention of quality executive leadership who will achieve competitively superior corporate performance and stockholder value creation. The Committee bases its compensation decisions on the following core principles:

Pay is Performance Based: Executive officer compensation is tightly linked to Company performance. Base salaries are targeted to the median of salaries paid at companies in the life insurance sector (life group). Salaries are coupled with annual and long term incentive programs that enable total compensation to rise above that of the fourteen comparable insurance companies (comparable group) median in years when Company performance is superior to that of the comparable group.

Compensation Opportunities Must Be Competitive: Competition for key management talent in the insurance industry is aggressive. The Committee carefully monitors the compensation practices of the comparable group and the life group to assure an appropriate level of competitiveness.

Program Elements

The Company s executive compensation program is composed of base salary, bonuses, annual incentive and long-term incentive compensation.

Base Salary. The Committee sets base salaries after considering an individual s responsibilities and performance, and the compensation for similar positions in the life group. Base salaries for executive officers are targeted to the midpoint of the life group. Salary ranges are set with minimum 20 percent below midpoint and maximum at 20 percent above midpoint.

The life group of companies consists of:

American Equity Investment Life Holding Co.
Amerus Group Co.
Delphi Financial Group, Inc.
FBL Financial Group, Inc.
Great American Financial Resources, Inc.
Jefferson-Pilot Corporation
National Western Life Insurance Co.
National Financial Services, Inc.
Phoenix Companies, Inc., The
Presidential Life Corporation
Protective Life Corporation
StanCorp Financial Group, Inc.
Torchmark Corporation
Unitrin, Inc.

All executive officers are eligible for an annual merit increase to base salary, effective January 1, based primarily on performance of job responsibilities and accomplishment of predetermined performance objectives. Job responsibilities are described by a current written job description and are evaluated by using the Hay Group system. Job accomplishment is measured by a written performance appraisal which includes evaluating the key responsibilities of the position using five levels of defined performance ratings culminating in an overall job performance rating. The Principal Executive Officer evaluates the executive officers' performance and the Compensation Committee evaluates the Principal Executive Officer's performance.

Bonus. Discretionary bonuses are approved by the committee.

Annual Incentive. The Company provides the named executive officers and 77 other participants with an annual opportunity to earn cash incentive awards through the Annual Incentive Plan (the AIP). Annual incentive compensation is paid in cash. The Company targets the combination of base salary and annual incentive to be that of the median of the life group.

The AIP is focused on three weighted corporate goals, Finance, Growth and Expense Control for the fiscal year.

The Finance Goal is measured by operating earnings excluding the impact of incentive compensation plans. The Growth Goal is measured by life insurance target premiums. The Expense Control Goal is measured by controllable expenses. Performance measures have a threshold, target and maximum award.

No payouts are made under the AIP unless the fiscal year earnings trigger is achieved. The earnings trigger is intended to prevent payouts if a specific level of return on equity is not achieved. Return on equity is based on the stockholder equity at the end of the prior fiscal year including unrealized gains and losses on investments excluding the impact of incentive compensation plans. For 2006 the earning trigger is $27 million of net income.

Different classes in the plan have different levels of opportunity for payouts based on a percent of their salary. The more senior the participant the higher the percentage of the award is allocated to corporate goals in order to reflect broader job duties. All participants, except the Principal Executive Officer, have two individual goals as part of their plan.

The AIP is designed to award individual and company performance that results in meeting important company objectives.

The AIP goals and earnings trigger are recommended by management and approved by the Compensation Committee.

2006 Annual Incentive Plan Corporate Goals

Weighting	Goals		Performance Measures		
	Finance Goal:		Threshold	$ 29.56	MM
40%	Operating Earnings		Target	$ 36.95	MM
	(Calendar Year)		Maximum	$ 44.34	MM
		Kansas City			
		Life	Threshold	$ 9.628	MM
		32% total	Target	$ 10.087	MM
	Growth Goal:	weighting	Maximum	$ 10.545	MM
	Life Insurance	**Third Party**	Threshold	$ 2.948	MM
40%	Target	8% total	Target	$ 3.088	MM
	Premiums	weighting	Maximum	$ 3.228	MM
			OR		
		All			
		Distribution	Threshold	$ 12.576	MM
		40% total	Target	$ 13.175	MM
		weighting	Maximum	$ 13.773	MM
	Expense Goal:		Threshold	$ 72.97	MM
20%	Controllable Expenses		Target	$ 72.26	MM
			Maximum	$ 71.54	MM

Long Term Incentive. The Company provides executive officers with a Long Term Incentive Plan (LTIP) that annually grants Phantom Stock Options (PSOs) for a three year overlapping term. The plan for term fiscal year 2006 began on January 1, 2004 and concluded on December 31, 2006. The initial face value of one PSO is the volume weighted average Company stock closing price from December 1, 2003 to December 31, 2003. The concluding value of one PSO is the volume weighted average Company stock closing price from December 1, 2006 to December 31, 2006. In addition, Company stock dividends accrue over the three year term and become payable at end of each year term LTIP PSO plans with terms running from January 1, 2005 to December 31, 2007 and January 1, 2006 to December 31, 2008.

For each three year term, the Compensation Committee determines Total Direct Compensation which is the number of PSO appreciation to be awarded to each executive officer based on the total of base salary for the fiscal year plus the AIP payout in the fiscal year for the plan concluding at the end of the prior fiscal year plus the present value of long term incentive compensation awarded in that fiscal year. Total direct compensation is adjusted to be between median and the 75th percentile of the life group when the AIP and LTIP awards are at target.

Upon timely election, executive officers may irrevocably elect to defer receipt of the plan award into deferred stock units (DSU) which fluctuate directly with the company stock price. The DSUs can be settled in stock, cash or a combination of both. All dividends on the DSUs are deferred until settlement of the DSUs. The election is intended to align the participants interests with that of the Company and shareholders.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code provides guidance on the deductibility of compensation paid to the Company s five highest paid officers. The Company has taken the necessary actions to ensure the deductibility of payments under the Company s annual and long-term performance incentive compensation plans. The Company also intends to take the actions necessary to maintain the future deductibility of payments and awards under these programs.

Conclusion

The Company is satisfied that the base salary, bonus, annual incentive plan and long-term incentive plan provided to the named executive officers of the Company are structured and operate to foster a performance-oriented culture and create

strong alignment with the long-term best interests of the Company and its stockholders and that compensation levels are reasonable in light of performance and industry practices.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Non-Equity Incentive Plan Compensation (11)	Change in Pension Value and Non-qualified Deferred Compensation Earnings		All Other Compensation (12)		Total
R. Philip Bixby President, CEO and Chairman of the Board (PEO)	2006	$ 634,740	$ 400	$ 636,422	$ 246,074	(1)	$ 49,803	(6)(13)	$ 1,567,439
Mark A. Milton Senior Vice President and Actuary	2006	$ 259,620	$ 400	$ 191,444	$ 74,844	(2)	$ 17,278	(7)(13)	$ 543,586
Tracy W. Knapp Senior Vice President, Finance (PFO)	2006	$ 256,200	$ 25,125	$ 183,801	$ 29,856	(3)	$ 18,608	(8)(13)	$ 513,590
Charles R. Duffy, Jr. Senior Vice President, Operations	2006	$ 264,360	$ 340	$ 155,162	$ 40,534	(4)	$ 21,294	(9)(13)	$ 481,690
Donald E. Krebs Senior Vice President, Sales & Marketing	2006	$ 245,100	$ 200	$ 155,786	$ 16,231	(5)	$ 17,719	(10)(13)	$ 435,036

(1) Includes $149,000 change in pension value and $97,074 change in nonqualified deferred compensation earnings.
(2) Includes $54,000 change in pension value and $20,844 change in nonqualified deferred compensation earnings.
(3) Includes $13,000 change in pension value and $16,856 change in nonqualified deferred compensation earnings.
(4) Includes $34,000 change in pension value and $6,534 change in nonqualified deferred compensation earnings.
(5) Includes $16,000 change in pension value and $231 change in nonqualified deferred compensation earnings.
(6) Includes chairman compensation of $8,000, which was paid in cash.
(7) Includes director compensation of $3,000, which was paid in cash.
(8) Includes director compensation of $8,000, which was paid in cash.
(9) Includes director compensation of $3,000, which was paid in cash.
(10) Includes director compensation of $2,000, which was paid in cash.
(11) Includes the amounts earned in the Long Term Incentive Plan (LTIP) and the Annual Incentive Plan (AIP) as shown below:

	Year	LTIP	AIP	Total LTIP and AIP
R. Philip Bixby	2006	$ 406,341	$ 230,081	$ 636,422
Mark A. Milton	2006	$ 121,821	$ 69,623	$ 191,444
Tracy W. Knapp	2006	$ 121,821	$ 61,980	$ 183,801
Charles R. Duffy, Jr.	2006	$ 84,268	$ 70,894	$ 155,162
Donald E. Krebs	2006	$ 96,491	$ 59,295	$ 155,786

(12) No named executive officers received perquisites totaling $10,000 or more.

(13) Includes:

	Year	Employer 401(k) Match	Employer Match Deferred Comp.
R. Philip Bixby	2006	$ 13,200	$ 24,884
Mark A. Milton	2006	$ 13,200	$ -
Tracy W. Knapp	2006	$ 9,900	$ -
Charles R. Duffy, Jr.	2006	$ 13,200	$ 2,662
Donald E. Krebs	2006	$ 13,200	$ 1,506

GRANTS OF PLAN BASED AWARDS

2006

Name	Grant Date (4)	Board of Directors Action Date (4)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			
			Threshold	Target	Maximum	
R. Philip Bixby	1/1/2006	11/7/2005	$ 158,685	$ 317,370	$ 476,055	(1)
	1/1/2004	10/27/2003		$ 406,341		(2)(3)
	1/1/2005	10/25/2004		$ 147,761		(3)
	1/1/2006	11/7/2005		$ 160,253		(3)
	1/1/2007	10/30/2006		$ -		(3)
Mark A. Milton	1/1/2006	11/7/2005	$ 52,249	$ 90,867	$ 129,485	(1)
	1/1/2004	10/27/2003		$ 121,821		(2)(3)
	1/1/2005	10/25/2004		$ 76,378		(3)
	1/1/2006	11/7/2005		$ 64,845		(3)
	1/1/2007	10/30/2006		$ -		(3)
Tracy W. Knapp	1/1/2006	11/7/2005	$ 51,560	$ 89,670	$ 127,780	(1)
	1/1/2004	10/27/2003		$ 121,821		(2)(3)
	1/1/2005	10/25/2004		$ 76,378		(3)
	1/1/2006	11/7/2005				