FIRST AMERICAN CAPITAL CORP /KS
Form 10QSB
October 06, 2006

United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2006.

[ ] Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____________________________ to ____________________________.

Commission file number : 0-25679

FIRST AMERICAN CAPITAL CORPORATION
(Exact Name of small business issuer in its charter)

Kansas	48-1187574
(State of incorporation)	(I.R.S. Employer Identification Number)

1303 S.W. First American Place Topeka, Kansas 66604
(Address of principal executive offices)

Issuer's telephone number (785) 267-7077

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Common Stock, $.10 Par Value - 4,257,057 shares as of March 16, 2006

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

FIRST AMERICAN CAPITAL CORPORATION

INDEX TO FORM 10-QSB

Part I. FINANCIAL INFORMATION	Page Numbers

Item 1. Financial Statements:

Part II. OTHER INFORMATION

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

Assets	(Unaudited) March 31, 2006	Decem 2
Investments:		
Securities available-for-sale, at fair value:		
Fixed maturities (amortized cost, $14,386,654 in 2006 and $13,960,005 in 2005)	$ 13,952,177	$
Equity securities (cost of $458,150 in 2006 and $458,150 in 2005)	482,964	
Investments in real estate	274,564	
Policy loans	127,069	
Mortgage loans on real estate	1,552,792	
Other investments	1,759,605	
Total investments	18,149,171	
Cash and cash equivalents	1,158,232	
Accrued investment income	228,111	
Accounts receivable	154,370	
Reinsurance receivables	53,166	
Deferred policy acquisition costs (net of accumulated amortization of $3,868,285 in 2006 and $3,712,369 in 2005)	5,252,322	
Property and equipment (net of accumulated depreciation of $855,841 in 2006 and $820,415 in 2005)	2,728,355	
Other assets	13,256	
Total assets	$ 27,736,983	$

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

Liabilities and Shareholders' Equity	(Unaudited) March 31, 2006	December 31, 2005

Policy and contract liabilities:		
Future annuity benefits	$ 11,511,988	$ 10,301,
Future policy benefits	5,517,782	5,267,
Liability for policy claims	172,749	190,
Policyholder premium deposits	133,365	146,
Deposits on pending policy applications	48,105	9,
Reinsurance premiums payable	63,813	107,
Amounts held under reinsurance	137,820	219,
Total policy and contract liabilities	17,585,622	16,241,
Commissions, salaries, wages and benefits payable	56,736	131,
Other liabilities	239,060	180,
Notes payable	2,248,197	2,272,
Deferred federal income taxes payable	465,078	527,
Total liabilities	20,594,693	19,354,
Shareholders' equity:		
Common stock, $.10 par value, 8,000,000 shares authorized; 5,449,578 shares issued and 4,257,057 shares outstanding in 2006; and 5,449,578 issued and 4,257,057 shares outstanding in 2005	544,958	544,
Additional paid in capital	12,478,903	12,478,
Accumulated deficit	(3,437,581)	(3,496,
Accumulated other comprehensive income (loss)	(324,642)	(84,
Less: Treasury stock held at cost (1,192,521 shares in 2006 and 1,192,521 in 2005)	(2,119,348)	(2,119,
Total shareholders' equity	7,142,290	7,323,
Total liabilities and shareholders' equity	$ 27,736,983	$ 26,677,

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three months ended	
	March 31, 2006	March 31, 2005
Revenues:		
Gross premium income	$ 1,263,966	$ 1,156,197
Reinsurance premiums assumed	2,166	2,035

Reinsurance premiums ceded	(162,353)	(45,776
Net premium income	1,103,779	1,112,456
Net investment income	265,966	189,933
Net realized investment gain (loss)	(1,724)	(1,669
Rental income	59,058	45,780
Other income	250	-
Total revenue	1,427,329	1,346,500
Benefits and expenses:		
Increase in policy reserves	249,977	411,748
Policyholder surrender values	71,365	49,609
Interest credited on annuities and premium deposits	126,304	85,826
Death claims	132,564	72,556
Commissions	250,321	300,960
Policy acquisition costs deferred	(274,994)	(322,203
Amortization of deferred policy acquisition costs	155,916	196,132
Salaries, wages, and employee benefits	270,832	315,040
Miscellaneous taxes	27,128	31,979
Other operating costs and expenses	359,093	420,933
Total benefits and expenses	1,368,506	1,562,580
Income (Loss) before income tax expense	58,832	(216,080
Income tax expense (benefit)	-	15,241
Net Income (Loss)	$ 58,823	$ (231,321
Net Income (Loss) per common share - basic and diluted	$ 0.01	$ (0.05

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited) Three months en[ded] March 31, 2006	
Net income (loss)	$ 58,823	$
Unrealized gain (loss) on available-for-sale securities:		
Unrealized holding gain (loss) during the period	(304,367)	
Less: Reclassification for gains (loss) included in net income	(1,724)	
Tax benefit (expense)	62,863	
Other comprehensive income (loss)	(239,780)	
Comprehensive loss	$ (180,957)	$
Comprehensive loss per common share-basic and diluted	$ (0.04)	$

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Three months ende[d] March 31, 2006	
Operating activities:		
Net income (loss)	$ 58,823	$
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Interest credited on annuities and premium deposits	126,304	
Net realized investment (gain) loss	1,724	
Provision for depreciation	35,425	
Settlement loss	-	
Amortization of premium and accretion of discount on fixed maturity and short-term investments	(11,619)	
Provision for deferred federal income taxes	-	
Decrease in accrued investment income	22,873	

(Increase) decrease in accounts receivable	117,830	
Decrease in reinsurance receivables	25,559	
Acquisition costs capitalized	(274,994)	
Amortization of deferred acquisition costs	155,916	
Increase in policy loans	(23,576)	
Decrease in other assets	11,679	
Increase in future policy benefits	249,977	
Increase (decrease) in liability for policy claims	(17,301)	
Increase in deposits on pending policy applications	38,744	
Decrease in reinsurance premiums payable	(43,521)	
Decrease in amounts held under reinsurance	(81,259)	
Increase (decrease) in commissions, salaries, wages and benefits payable	(75,137)	
Increase in other liabilities	58,974	
Net cash provided by (used in) operating activities	$ 376,421	$

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	(Unaudited) March 31, 2006	March 2005
Investing activities:		
Purchase of available-for-sale fixed maturities	$ (565,852)	$ (749,
Sale of available-for-sale fixed maturities	69,346	198,
Maturity of available-for-sale fixed maturities	50,000	500,
Additions to property and equipment	(7,755)	(1,
Purchase of other investments	(130,800)	(218,
Maturity of other investments	57,812	8,
Purchase of mortgage loans	-	(299,
Payments received on mortgage loans	13,590	1,
Net cash used in investing activities	(513,659)	(559,
Financing activities:		
Proceeds from note payable	-	570,
Payments on notes payable	(24,789)	(19,
Deposits on annuity contracts	1,084,138	1,009,

Surrenders on annuity contracts	-	(162,
Policyholder premium deposits	-	16,
Withdrawals on policyholder premium deposits	(12,988)	(18,
Purchase of treasury stock	-	(770,
Net cash provided by financing activities	1,046,361	627,
(Decrease) Increase in cash and cash equivalents	909,123	350,
Cash and cash equivalents, beginning of period	249,109	527,
Cash and cash equivalents, end of period	$ 1,158,233	$ 877,
Supplemental disclosure of cash activities:		
Interest paid	$ 36,446	$ 28,
Income taxes paid	$ -	$

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying condensed consolidated financial statements of First American Capital Corporation and its Subsidiaries (the "Company") for the three month periods ended March 31, 2006 and 2005 are unaudited. However, in the opinion of the Company, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been reflected therein.

Certain financial information which is normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but which is not required for interim reporting purposes, has been omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the fiscal year ended December 31, 2005. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

2. Notes Payable

The Company maintained a $1,722,054 note to VisionBank as of March 31, 2006. The note is secured by the home office building. The note will mature on April 22,

2013. The note is payable in 120 monthly payments of $13,534 each with a final payment of the unpaid principal balance and interest on April 22, 2013. Interest will be accrued at 6% until April 22, 2008 at which time the rate may change. The interest rate change will be the Wall Street Journal Prime Rate of Interest, subject to a floor of 6% and a ceiling of 9.5%.

On March 2, 2005 the Company borrowed $570,355 from Brooke Credit Corporation at a fixed interest rate of 8% over a ten year period. The note is payable in 120 monthly payments of $6,897. The balance of the note at March 31, 2006 was $526,143. In April 2006 both notes were repaid.

3. Net Earnings Per Common Share

Net income (loss) per common share for basic and diluted earnings per share is based upon the weighted average number of common shares outstanding during each period. On March 2, 2005 the Company acquired 450,500 shares of its common stock from Brooke. The weighted average number of common shares outstanding was 4,257,057 and 4,541,917 for the three months ended March 31, 2006 and March 31, 2005, respectively.

4. Federal Income Taxes

Current taxes are provided based on estimates of the projected effective annual tax rate. Deferred taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has elected to file a consolidated federal income tax return with its subsidiaries, First Life America Corporation ("FLAC") and First Life Brokerage, Inc. (FLBI) for 2006 and 2005. FLAC is taxed as a life insurance company under the provisions of the Internal Revenue Code and had to file a separate tax return for its initial five years of existence, which covers the period from November 1998 through December 31, 2002.

5. Commitments and Contingencies

On November 12, 2003, the Company filed a petition in the District Court of Shawnee County, Kansas asserting claims against Rickie D. Meyer ("Meyer"), the Company's former President, arising, in part, out of Meyer's employment with the Company. Among other things, the Company sought to recover expense reimbursements previously paid to Meyer and Company funds allegedly misappropriated by Meyer. On August 8, 2003, the Company settled a claim that it had

breached various marketing agreements with AF&L, a long-term care insurance company, and certain of its affiliates, through the payment to AF&L of $150,000 plus $15,000 in attorney fees.

On December 12, 2003, Meyer filed an Answer and Counterclaim against the Company asserting claims for defamation and breach of employment agreement.

On August 1, 2005, the District Court of Shawnee County, Kansas entered an order, by agreement, submitting the claims to binding arbitration. Following the conclusion of the arbitration, the parties entered into a settlement agreement in November of 2005, pursuant to which the Company agreed to pay Meyer $38,500 and Meyer and the Company agreed to settle all claims. The Company paid the amount to Meyer in February of 2006. This award amount had been accrued as of December 31, 2005.

6. Reinsurance

Effective September 29, 2005, the Company and Wilton Reassurance Company ("Wilton Re"), of Wilton, CT, executed a binding letter of intent whereby both parties agreed that the Company would cede the simplified issue version of its Golden Eagle Whole Life (Final Expense) product to Wilton Re on a 50/50 quota share original term coinsurance basis. The letter of intent was executed on a retroactive basis to cover all applicable business issued by the Company subsequent to January 1, 2005. Wilton Re has agreed to provide various commission and expense allowances to the Company in exchange for the Company ceding 50% of the applicable premiums to Wilton Re as they are collected.

7. Liquidity and Capital Resources

During the quarters ended March 31, 2006, and 2005, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity to purchase various investments. Net cash provided by operating activities during the quarters ended March 31, 2006 and 2005 totaled $376,421 and $282,875, respectively.

As of March 31, 2006, the Company and its subsidiaries had consolidated cash reserves and liquid investments of approximately $15,576,573, as compared with $14,316,644 as if March 31, 2005. Of these amounts, cash reserves and liquid investments at FLAC as of these dates were approximately $15,231,163 and $13,282,629, respectively. FLAC generally receives adequate cash flow from premium collections and investment income to meet the obligations of its insurance operations. Insurance policy liabilities are primarily long-term and generally are paid from future cash flows. Cash collected from deposits on annuity contracts and policyholder premium deposits are recorded as cash flows from financing activities. Due to insurance regulatory restrictions, as noted above, cash generated by FLAC cannot necessarily be used to fund the cash needs of the parent company on a stand-alone basis.

As of March 31, 2006, cash reserves and nonliquid investments at the parent company level were approximately $340,052 as compared with $1,034,015 as of March 31, 2005. Cash reserves for FLBI were $5,358 at March 31, 2006 and there were none at March 31, 2005. Based on the decreasing level of cash reserves and nonliquid investments at the parent company level over the past few years, in 2005, management began to pursue all reasonable alternatives for increasing cash reserves at the parent company level. As an initial step in this process, the Board of Directors of each of the parent company and FLAC approved a transaction pursuant to which FLAC agreed to purchase the Company's home office building and the real property on which it is located from the parent company at its value of $2,800,000, which was determined based on an independent appraisal.

On March 28, 2006, the Kansas Insurance Department (KID) approved this transaction pursuant to a Form D (Prior Notice of a Transaction) filed by the Company. Proceeds from the sale were used by the parent company to pay off the two creditors that held mortgages on the building, which resulting in interest savings of approximately $890,000 over the life of the loans. In addition, the transaction provided the parent company with approximately $500,000 in cash. This cash will be used to fund operations at the parent company.

Based on currently forecasted cash flow levels, management anticipates that the $500,000 in cash provided to the parent company as a result of the aforementioned transaction plus the parent company's existing cash reserves of approximately $380,000 will fund operations at the parent company level into mid 2007. Therefore, in the interim, management will continue to explore all reasonable opportunities to provide additional capital to the parent company through the sale of new equity securities or debt securities, or through borrowed funds. Successful efforts in this arena will not only help to remedy the parent company's current cash situation, but also allow management to fully implement its business development plan of expanding the Company's product lines and marketing efforts through the infusion of additional capital into FLAC's insurance operations and FLBI's brokerage operations. If these efforts are not successful, however, then the Company will have no choice but to cease operations as a public company and liquidate its assets, which primarily are the insurance operations of its subsidiary FLAC. There is no assurance of what if any value could be realized by the parent company in this event.

Pursuant to these efforts, on October 6, 2006, the Company executed a Stock Purchase and Sale Agreement (the "Agreement") with Brooke Corporation ("Brooke") pursuant to which, subject to the conditions stated in the Agreement, Brooke has agreed to acquire newly issued shares of the common stock of FACC in a two step transaction that will result in Brooke owning 55% of the then issued and outstanding shares of common stock. In consideration therefor, Brooke will (i) pay to FACC $3,000,000 in cash and (ii) enter into a Brokerage Agreement pursuant to which, among other things, CJD & Associates, L.L.C., a Brooke subsidiary, will cause all of its new managing general agent loan brokerage business to be transacted through First Life Brokerage, Inc. ("FLB"), a FACC subsidiary. In the Agreement, the pretax profits of FLB over a three year period shall be not less than $6,000,000 in pretax profits or Brooke shall be obligated to contribute funds FACC as additional consideration for the issuance of the shares of FACC common stock acquired pursuant to the Agreement to the extent the pretax profit goal is not made under such schedule. The closing of the transactions contemplated under the Agreement are subject to a number of conditions, including the approval of the Kansas Department of Insurance. Although there is no assurance that these conditions will be met and that the closing of these transactions will occur, management currently anticipates that the closing will occur in the fourth quarter of 2006.

8. Other Regulatory Matters

FLAC is currently licensed to transact life and annuity business in the states of Kansas, Texas, Illinois, Oklahoma, North Dakota, Kentucky and Nebraska. Due to the varied processes of obtaining admission to write business in new states, management cannot reasonably estimate the time frame of expanding its marketing presence.

FLAC was previously licensed to transact business in the state of Ohio. FLAC's license in Ohio was suspended during the fourth quarter of 2005. The suspension resulted from FLAC's statutory basis capital and surplus as of September 30, 2005 of $2,495,616 being less than the minimum required level in Ohio of $2,500,000. As of March 31, 2006, FLAC's statutory basis capital and surplus was $2,951,924, which is in excess of the aforementioned minimum requirement. FLAC has appealed the suspension and expects to have its license reinstated in 2006.

9. Segment Information

The operations of the Company and its subsidiaries have been classified into two operating segments as follows: life and annuity insurance operations and corporate and brokerage operations. Segment information for the three months ended March 31, 2006 and 2005, and as of March 31, 2006 and December 31, 2005 is as follows:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Revenues:		
Life and annuity insurance operations	$ 1,365,394	$ 1,291,279
Corporate and brokerage operations	61,935	55,221
Total	$ 1,427,329	$ 1,346,500
Income (loss) before income taxes:		
Life and annuity insurance operations	$ 244,467	$ 83,692
Corporate and brokerage operations	(185,644)	(299,772)
Total	$ 58,823	$ (216,080)
Depreciation and amortization expense:		
Life and annuity insurance operations	$ 155,916	$ 196,132
Corporate and brokerage operations	35,425	41,347
Total	$ 191,341	$ 237,479

	March 31, 2006	December 31, 2005
Assets:		
Life and annuity insurance operations	$ 24,610,581	$ 23,337,149
Corporate and brokerage operations	3,126,402	3,340,513
Total	$ 27,736,983	$ 26,677,662

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company makes forward-looking statements from time to time and desires to take advantage of the "safe harbor" that is afforded such statements under the Private Securities Litigation Reform Act of 1995 when they are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements.

The statements contained in this report, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Any projections of financial performances or statements concerning expectations as to future developments should not be construed in any manner as a guarantee that such results or developments will, in fact, occur. There can be no assurance that any forward-looking statement will be realized or that actual results will not be significantly different from that set forth in such forward-looking statement. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company referred to above are also subject to the following risks and uncertainties, among others: (i) the strength of the United States economy in general and the strength of the local economies in which the Company does business; (ii) inflation, interest rates, market and monetary fluctuations and volatility; (iii) the timely development of and acceptance of new products and services and perceived overall value of these products and services by existing and potential customers; (iv) the persistency of existing and future insurance policies sold by the Company; (v) the effect of changes in laws and regulations with which the Company must comply; and (vi) the cost and effects of litigation and of unexpected or adverse outcomes in litigation.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

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 significant judgments and estimates concerning future results or other developments, including the likelihood, timing or amount of one or more future transactions. Actual results may differ from these estimates under different assumptions or conditions. 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.

Investments

The Company's principal investments are in fixed maturity securities. Investments 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. 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 broker statements.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs, 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. Profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. These assumptions involve judgment and are compared to actual experience on an ongoing basis.

Future Policy Benefits

The Company establishes liabilities for amounts payable under insurance policies. Generally, benefits are payable over an extended period of time and the reserves established for future policy benefits are dependent on the assumptions used in the pricing of the products. Principal assumptions used in pricing policies and in the establishment of reserves for future policy benefits are mortality, morbidity, expenses, persistency, investment returns and inflation. Differences between actual experience and assumptions used in the pricing of these policies and in the establishment of liabilities may result in variability of net income in amounts which may be material.

Future Annuity Benefits

Future annuity benefits relate to deferred annuity contracts. The account balances for deferred annuity contracts are equal to the cumulative deposits less any applicable contract charges plus interest credited. The profitability of these products is also dependent on principal assumptions similar to traditional insurance products, and differences between actual experience and pricing assumptions may result in variability of net income in amounts which may be material.

Premiums

Premiums for traditional life insurance products are reported as revenue when due. Traditional insurance products include whole life and term life. Deposits relate to deferred annuity products. The cash flows from deposits are credited to policyholder account balances. Deposits are not recorded as revenue.

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.

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. Reinsurance supports a multitude of corporate objectives including managing statutory capital, reducing volatility and reducing surplus strain. At the customer level it 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 the Company could not otherwise bring to market without reinsurance support.

Financial Condition

Significant changes in the condensed consolidated balance sheets from December 31, 2005 to March 31, 2006 are highlighted below.

Total assets increased from $26,677,662 at December 31, 2005 to $27,736,983 at March 31, 2006. The increase in total assets is primarily attributable to the investment of premiums received during the quarter. Given the long-term nature of the policy and contract liabilities associated with these premiums, management is able to invest these premiums for a period of time until a payout of policy benefits is required.

The Company's available-for-sale fixed maturity securities had a fair value of $13,952,177 and $13,854,375 at March 31, 2006 and December 31, 2005, respectively. This investment portfolio is reported at market value with unrealized gains and losses, net of applicable deferred taxes, reflected as a separate component of accumulated other comprehensive income.

Credit risk is limited by emphasizing investment grade securities and by diversifying the investment portfolio among various investment instruments. Certain cash balances exceed the maximum insurance protection of $100,000 provided by the Federal Deposit Insurance Corporation. However, cash balances exceeding this maximum are protected through

additional insurance. As a result, management believes that significant concentrations of credit risk do not exist.

Mortgage loans on real estate decreased from $1,566,382 at December 31, 2005 to $1,552,792 at March 31, 2006. The slight decrease is attributable to the payments received during the quarter on mortgage loans purchased during the quarter. No additional mortgage loans were purchased in the first quarter of 2006. The Company currently owns six mortgage loans. The Company may purchase more of these types of investments in the future in limited quantities in an effort to enhance the Company's investment portfolio yield.

Other investments increased from $1,656,866 at December 31, 2005 to $1,759,605 at March 31, 2006. The increase is attributable to the purchase of additional investments in lottery prize cash flows during the three months ended March 31, 2006. These other investments involve purchasing assignments of the future payment rights from the lottery winners at a discounted price sufficient to meet the Company's yield requirements. Payments on these other investments will be made by state run lotteries and as such are backed by the general credit of the respective state. The Company may purchase more of these types of investments in the future in limited quantities in an effort to enhance the Company's investment portfolio yield.

Cash and cash equivalents increased to $1,158,232 at March 31, 2006 from

$249,109 at December 31, 2005. Refer to the statement of cash flows for sources and uses of cash.

Accounts receivable decreased 43% from $272,200 at December 31, 2005 to $154,370 at March 31, 2006. The decrease is primarily due to a decrease of $121,467 in amounts due from agents. An allowance for uncollectible items is not deemed necessary with respect to these receivables.

Deferred policy acquisition costs, net of amortization, increased 2% from $5,133,244 at December 31, 2005 to $5,252,322 at March 31, 2006 resulting from the capitalization of acquisition expenses related to the sales of life insurance. These acquisition expenses include commissions on first year business, medical exam and inspection report fees, and salaries of employees directly involved in the marketing, underwriting and policy issuance functions. Management of the Company reviews the recoverability of deferred acquisition costs on a quarterly basis based on current trends as to persistency, mortality and interest. These trends are compared to the assumptions used in the establishment of the original asset in order to assess the need for impairment. Based on the results of the aforementioned procedures performed by management, no impairments have been recorded against the balance of deferred acquisition costs.

Liabilities increased to $20,594,693 at March 31, 2006 from $19,354,415 at December 31, 2005. A significant portion of this increase is attributable to future policy and annuity benefits related to sales of the Company's various life insurance products. Reserves for future policy benefits established due to the sale of life insurance increased $249,977, or 5% from December 31, 2005 to March 31, 2006. These reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. Reserves for future annuity benefits increased $1,210,442 or 12% from December 31, 2005 to March 31, 2006. In 2005, annuity contract liabilities increased due to the introduction of three new annuity products to the marketing force and continued considerations received on the Company's FA2000 product. According to the design of the Company's FA2000 product, first year premium payments are allocated 100% to life insurance and renewal payments are split 50% to life and 50% to annuity.

Other liabilities increased $58,974 from $180,086 at December 31, 2005 to $239,060 at March 31, 2006. The increase is attributable to timing factors associated with the payment of significant invoices for professional services and property taxes.

Notes payable decreased $24,789 from $2,272,986 at December 31, 2005 to $2,248,197 at March 31, 2006. The decrease is attributable to payments made on the construction loan as well as payments made to Brooke's note payable.

Deferred federal income taxes payable decreased to $465,078 at March 31, 2006 from $527,941 at December 31, 2005. Deferred federal income taxes payable are established based on timing differences between income recognized for financial statement purposes and taxable income for the Internal Revenue Service. These deferred taxes are based on the

operations of the Company and FLAC and on unrealized losses on available-for-sale securities. The decrease in deferred taxes payable is primarily attributable to the increase in unrealized losses in the investment portfolio at March 31, 2006 compared to December 31, 2005.

Results of Operations

Significant components of revenues include life insurance premiums (net of reinsurance) and net investment income. The following table provides information concerning net premium income for the three months ended March 31, 2006 and 2005:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Whole life insurance:		
First year	$ 235,522	$ 221,134
Renewal	1,018,041	927,580
Term insurance:		
First year	1,443	40
Renewal	1,960	1,723
Single premium	7,000	5,720
Gross premium income	1,263,966	1,156,197
Reinsurance premiums assumed	2,166	2,035
Reinsurance premiums ceded	(162,353)	(45,776)
Net premium income	$ 1,103,779	$ 1,112,456

Net premium income decreased $8,677 or 1% from the three months ended March 31, 2006 to the same period during 2005. Total first year whole life premium increased $14,388 or 7% from 2005 to 2006. The increase is attributable to a continuing increase in production of the Company's Golden Eagle Whole Life (Final Expense) product.

Management spent a significant amount of time during 2004 developing new products in an effort to enhance production going forward. Management released several new annuity, term and whole life products during 2005. The Company's goal in introducing these new products is to diversify the Company's product mix and to manage its first year production to both the needs and capacity of the Company.

Total renewal year whole life premiums increased $89,949 or 10% from the three months ended March 31, 2005 to the same period during 2006. Renewal premiums reflect the premium collected in the current year for those policies that have surpassed their first anniversary. Renewal premiums will continue to increase unless premiums lost from surrenders, lapses, settlement options or application of the non-forfeiture options, exceed prior year's first year premium, other than single premium.

Reinsurance premiums ceded increased $116,577 or 255% for the three months ended March 31, 2006, compared to the same period in 2005. The increase is primarily attributable to premiums paid to Wilton Re in conjunction with the reinsurance of the Company's Golden Eagle Whole Life (Final Expense) product.

Net investment income increased $76,033 or 40% for the three months ended March 31, 2006, compared to the same period for 2005. The increase is due to an increase of average yields on the Company's portfolio. The Company revised its investment strategy and is now focused primarily on matching maturities to the anticipated cash needs of the Company, but also attempts to match the investment mix to others within the Company's industry peer group.

Benefits and expenses totaled $1,368,506 and $1,562,580 during the three months ended March 31, 2006 and 2005, respectively. Included in total benefits and expenses were policy reserve increases of $249,977 and $411,748 during three months ended March 31, 2006 and 2005, respectively. Life insurance reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. As more life insurance is written and existing policies reach additional durations, policy reserves will continue to increase.

Policyholder surrender values increased $21,756 from $49,609 during the three months ended March 31, 2005 to $71,365 during the same period in 2006. This increase is attributable to the maturation of policies.

Interest credited on annuities and premium deposits totaled $126,304 and $85,826 for the three months ended March 31, 2006 and 2005, respectively. The increase during 2006 of $40,478 or 47% is primarily a result of the increase in annuity fund balances. Both interest credited on annuities and premium deposits have increased as a result of the increase in the number of policies inforce. The average interest credit rate on annuities and premium deposits has increased from 4.6% to 4.9% during the three months ended March 31, 2005 and 2006, respectively.

Death claims increased $60,008, or 83%, for the three months ended March 31, 2006, compared to the same period for 2005. The increase is attributable to the increase in the number of policies inforce and the continued maturation of those policies. Mortality experienced by the Company to date is within management's expectations.

Commission expense totaled $250,321 and $300,960 for the three months ended March 31, 2006 and 2005, respectively. Commission expense is based on a percentage and is determined in the product design. Additionally higher percentage commissions are paid for first year business rather than the renewal year. Commission expense decreased $50,639 primarily due to commission allowances received on reinsured business due from Wilton Re of $115,271 during the quarter being netted against the commission expense. Commission allowances received on reinsurance business essentially serve as a reimbursement to the Company for acquisition costs incurred to write business.

Salaries, wages and employee benefits decreased $44,208 from $315,040 for the three months ended March 31, 2005, to $270,832 for the same period in 2006. The decrease in 2006 is primarily attributable to a decrease in employee headcount along with decreased employee benefit expenses.

Other operating costs and expenses totaled $359,093 and $420,933 for the three months ended March 31, 2006 and 2005, respectively. The net decrease of $61,840, or 15%, was primarily due to a decrease in Wilton Re expense allowances of $38,089, and a loss on a Treasury Stock transaction (Brooke) of $35,465 recognized in March 31, 2005. The Company had no Treasury Stock transactions for the same period in 2006.

As a result of the items noted above the Company had a net income of $58,823 for the three months ended March 31, 2006 and incurred a net loss of $231,321 for the three months ended March 31, 2005.

Liquidity and Capital Resources

During the quarters ended March 31, 2006, and 2005, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity to purchase various investments. Net cash provided by operating activities during the quarters ended March 31, 2006 and 2005 totaled $376,421 and $282,875, respectively.

As of March 31, 2006, the Company and its subsidiaries had consolidated cash reserves and liquid investments of approximately $15,576,573, as compared with $14,316,644 as if March 31, 2005. Of these amounts, cash reserves and liquid investments at FLAC as of these dates were approximately $15,231,163 and $13,282,629, respectively. FLAC generally receives adequate cash flow from premium collections and investment income to meet the obligations of its insurance operations. Insurance policy liabilities are primarily long-term and generally are paid from future cash flows. Cash collected from deposits on annuity contracts and policyholder premium deposits are recorded as cash flows from financing activities. Due to insurance regulatory restrictions, as noted above, cash generated by FLAC cannot necessarily be used to fund the cash needs of the parent company on a stand-alone basis.

As of March 31, 2006, cash reserves and nonliquid investments at the parent company level were approximately $340,052 as compared with $1,034,015 as of March 31, 2005. Cash reserves for FLBI were $5,358 at March 31, 2006 and there were none at March 31, 2005. Based on the decreasing level of cash reserves and nonliquid investments at the parent company level over the past few years, in 2005, management began to pursue all reasonable alternatives for increasing cash reserves at the parent company level. As an initial step in this process, the Board of Directors of each of the parent company and FLAC approved a transaction pursuant to which FLAC agreed to purchase the Company's home office building and the real property on which it is located from the parent company at its value of $2,800,000, which was determined based on an independent appraisal.

On March 28, 2006, the Kansas Insurance Department (KID) approved this transaction pursuant to a Form D (Prior Notice of a Transaction) filed by the Company. Proceeds from the sale were used by the parent company to pay off the two creditors that held mortgages on the building, which resulting in interest savings of approximately $890,000 over the life of the loans. In addition, the transaction provided the parent company with approximately $500,000 in cash. This cash will be used to fund operations at the parent company.

Based on currently forecasted cash flow levels, management anticipates that the $500,000 in cash provided to the

17

parent company as a result of the aforementioned transaction plus the parent company's existing cash reserves of approximately $380,000 will fund operations at the parent company level into mid 2007. Therefore, in the interim, management will continue to explore all reasonable opportunities to provide additional capital to the parent company through the sale of new equity securities or debt securities, or through borrowed funds. Successful efforts in this arena will not only help to remedy the parent company's current cash situation, but also allow management to fully implement its business development plan of expanding the Company's product lines and marketing efforts through the infusion of additional capital into FLAC's insurance operations and FLBI's brokerage operations. If these efforts are not successful, however, then the Company will have no choice but to cease operations as a public company and liquidate its assets, which primarily are the insurance operations of its subsidiary FLAC. There is no assurance of what if any value could be realized by the parent company in this event.

Pursuant to these efforts, on October 6, 2006, the Company executed a Stock Purchase and Sale Agreement (the "Agreement") with Brooke Corporation ("Brooke") pursuant to which, subject to the conditions stated in the Agreement, Brooke has agreed to acquire newly issued shares of the common stock of FACC in a two step transaction that will result in Brooke owning 55% of the then issued and outstanding shares of common stock. In consideration therefor, Brooke will (i) pay to FACC $3,000,000 in cash and (ii) enter into a Brokerage Agreement pursuant to which, among other things, CJD & Associates, L.L.C., a Brooke subsidiary, will cause all of its new managing general agent loan brokerage business to be transacted through First Life Brokerage, Inc. ("FLB"), a FACC subsidiary. In the Agreement, the pretax profits of FLB over a three year period shall be not less than $6,000,000 in pretax profits or Brooke shall be obligated to contribute funds FACC as additional consideration for the issuance of the shares of FACC common stock acquired pursuant to the Agreement to the extent the pretax profit goal is not made under such schedule. The closing of the transactions contemplated under the Agreement are subject to a number of conditions, including the approval of the Kansas Department of Insurance. Although there is no assurrance that these conditions will be met and that the closing of these transactions will occur, management currently anticipates that the closing will occur in the fourth quarter of 2006.

ITEM 3. CONTROLS AND PROCEDURES

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. This information is accumulated and communicated to the Company's management to allow timely decisions regarding disclosure. The Company's Chief Executive Officer and President conducted an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon the evaluation of those controls and procedures, the Chief Executive Officer and President of the Company concluded that the Company's disclosure controls and procedures are effective in alerting on a timely basis, material information required to be disclosed in the Company's periodic filings.

The Company made no significant changes in its internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive Officer and President.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Index to Exhibits

Exhibit No.	Description
3.1	Articles of Incorporation of First American Capital Corporation (Incorporated by reference from Exhibit 2.1 to the Registrant's amended Form 10-SB filed August 13, 1999)
3.2	Bylaws of First American Capital Corporation, as amended (Incorporated by reference from Exhibit 3.2 to the Registrant's Form 8-K filed April 11, 2005)
4	Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations, and Restrictions Thereof of 6% Non-Cumulative, Convertible, Callable Preferred Stock (Incorporated by reference from Exhibit 3 to the Registrant's amended Form 10-SB filed August 13, 1999)
10.1	Form of Advisory Board Contract (Incorporated by reference from Exhibit 6.2 to the Registrant's amended Form 10-SB filed August 13, 1999)
10.2	Service Agreement amended and restated effective January 1, 2002 between First American Capital Corporation and First Life America Corporation (Incorporated by reference from Exhibit 10.3 to the Registrant's Form 10-KSB filed March 31, 2003)
10.3	Automatic Umbrella and Bulk ADB Reinsurance Agreements effective September 1, 1998 between First Life America Corporation and Business Men's Assurance Company of America (Incorporated by reference from Exhibit 6.8 to the Registrant's Form 10-SB filed August 13, 1999)
10.4	Employment Agreement effective February 16, 2004 between First American Capital Corporation and John F. Van Engelen, as amended (Incorporated by reference from Exhibit 10.5 to the Registrant's Form 10-QSB filed November 15, 2004)
10.5	Inter-company Tax Sharing Agreement dated December 31, 2003 between First American Capital Corporation and First Life America Corporation (Incorporated by reference from Exhibit 10.6 to the Registrant's Form 10-KSB filed March 29, 2004)
10.6	Stock Repurchase Agreement between First American Capital Corporation and Brooke Corporation dated March 2, 2005 (Incorporated by reference from Exhibit 10.7 to the Registrant's Form 10-KSB filed March 31, 2005)
10.7	Warrant for 50,000 shares of First American Capital Corporation common stock for $1.71per share issued to Brooke Corporation effective March 2, 2005 (Incorporated by reference from Exhibit 10.8 to the Registrant's Form 10-KSB filed March 31, 2005)

10.8	Warrant for 50,000 shares of First American Capital Corporation common stock for $3.35per share issued to Brooke Corporation effective March 2, 2005 (Incorporated by reference from Exhibit 10.9 to the Registrant's Form 10-KSB filed March 31, 2005)

10.9	Warrant for 50,000 shares of First American Capital Corporation common stock for $5.00 per share issued to Brooke Corporation effective March 2, 2005 (Incorporated by reference from Exhibit 10.10 to the Registrant's Form 10-KSB filed March 31, 2005)
10.10	Employment Agreement effective February 7, 2005 between First American Capital Corporation and Richard H. Katz (Incorporated by reference from Exhibit 10.11 to the Registrant's Form 8-K filed April 22, 2005)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*)
31.2	Certification of Treasurer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*)
32.1	Certificate of Chief Executive Officer pursuant to Section 18 U.S.C. Section 1350 (*)
32.2	Certificate of Treasurer and Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350 (*)
	(*) Filed herewith
b)	Reports on Form 8-K
	The Company filed current reports on Forms 8-K dated February 16, 2006, March 13, 2006, and June 5, 2006, announcing current developments.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST AMERICAN CAPITAL CORPORATION

Date: October 6, 2006 By: /s/ John F. Van Engelen

John F. Van Engelen

President & Chief Executive Officer

Date: October 6, 2006

By: /s/ Harland E. Priddle

Harland E. Priddle
Chairman & Secretary of the Board of Directors

22