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FIRST AMERICAN CAPITAL CORP /KS
Form 10QSB
May 14, 2002

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, 2002.

[] 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

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 - 5,273,985 shares as of May 1, 2002

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

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FIRST AMERICAN CAPITAL CORPORATION

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FIRST AMERICAN CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2002 =====	December 31, 2001 =====
	(Unaudited)	
Investments:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost, \$8,399,223 in 2002 and \$8,313,448 in 2001)	\$ 8,578,396	\$ 8,605,901
Investments in real estate	274,564	274,564
Policy loans	42,836	33,178
Notes receivable (net of valuation allowance of \$3,491 in 2002 and \$4,406 in 2001)	25,000	-
Short-term investments	1,851,945	2,286,095
	10,772,741	11,199,738
Cash and cash equivalents	1,396,119	463,363
Investments in related parties	145,797	150,576
Accrued investment income	178,493	181,719
Accounts receivable	158,266	104,447
Accounts receivable from affiliate	126,987	124,881
Deferred policy acquisition costs (net of accumulated amortization of \$1,312,986 in 2002 and \$1,259,744 in 2001)	2,274,842	1,928,820

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Property and equipment (net of accumulated depreciation of \$162,775 in 2002 and \$129,977 in 2001)	3,039,261	3,060,347
Other assets	41,169	26,072
	-----	-----
Total assets	\$18,133,675	\$ 17,239,963
	=====	=====

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY	March 31, 2002	December 31, 2001
	=====	=====
	(Unaudited)	
Policy and contract liabilities:		
Annuity contract liabilities	\$ 1,798,543	\$ 1,424,118
Life policy reserves	1,711,928	1,522,794
Liability for policy claims	-	-
Policyholder premium deposits	161,038	166,182
Deposits on pending policy applications	149,119	172,616
Reinsurance premiums payable	37,153	32,142
	-----	-----
Total policy and contract liabilities	3,857,781	3,317,852
Commissions, salaries, wages and benefits payable	125,606	84,038
Other liabilities	366,803	28,395
Note payable	1,947,758	1,967,328
Accounts payable to affiliate	15,974	18,022
Federal income taxes payable:		
Current	-	613
Deferred	603,391	533,793
	-----	-----
Total liabilities	6,917,313	5,950,041
Shareholders' equity:		
Common stock, \$.10 par value, 8,000,000 shares authorized; 5,438,985 shares issued and 5,273,985 shares outstanding in 2002 and 2001;	543,899	543,899
Additional paid in capital	12,328,617	12,328,617
Retained earnings - deficit	(1,528,207)	(1,529,613)
Accumulated other comprehensive income	116,311	191,277
Less: treasury shares held at cost (165,000 shares in 2002 and 2001)	(244,258)	(244,258)
	-----	-----
Total shareholders' equity	11,216,362	11,289,922
	-----	-----
Total liabilities and shareholders' equity	\$ 18,133,675	\$ 17,239,963
	=====	=====

See notes to condensed consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended	
	March 31, 2002	March 31, 2001
	=====	=====
	(Unaudited)	(Unaudited)
Revenues:		
Gross premium income	\$ 898,338	\$ 593,177
Reinsurance premiums ceded	(34,545)	(24,795)
Net premium income	863,793	568,382
Net investment income	141,961	215,501
Net realized gain on disposal of assets	86	-
Rental income	70,544	-
Other income	1,062	3,080
	-----	-----
Total revenue	1,077,446	786,963
Benefits and expenses:		
Increase in policy reserves	189,133	129,039
Policyholder surrender values	27,521	7,630
Interest credited on annuities and premium deposits	32,005	12,747
Death claims	-	38,142
Commissions	301,470	148,407
Policy acquisition costs deferred	(399,264)	(186,796)
Amortization of deferred policy acquisition costs	53,242	55,762
Salaries, wages, and employee benefits	351,653	192,426
Miscellaneous taxes	7,399	4,370
Administrative fees - related party	42,849	35,729
Other operating costs and expenses	359,873	200,660
	-----	-----
Total benefits and expenses	965,881	638,116
	-----	-----
Income before income tax expense	111,565	148,847
Income tax expense	110,156	56,880
	-----	-----
Net income	\$ 1,409	\$ 91,967
	=====	=====
Net income per common share - basic and diluted	\$ 0.00	\$ 0.02
	=====	=====

See notes to condensed consolidated financial statements

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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	March 31, 2002 =====	March 31, 2001 =====
	(Unaudited)	(Unaudited)
Net income	\$ 1,409	\$ 91,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest credited on annuities and premium deposits	32,004	12,747
Net realized investment gains	(86)	-
Provision for depreciation and amortization	32,798	3,977
Equity loss in investment in affiliate	7,119	-
Amortization of premium and accretion of discount on fixed maturity and short-term investments	11,187	(7,491)
Interest credited to certificates of deposit balances	(4,943)	(18,230)
Realized net loss on disposal of assets	-	1,034
Provision for deferred federal income taxes	109,965	54,033
Increase in prepaid administrative fees - related party	-	(88,808)
Decrease (increase) in accrued investment income	3,226	(34,096)
Increase in accounts receivable	(53,819)	(18,171)
Increase in accounts receivable from affiliate	(2,106)	-
Increase in deferred policy acquisition costs, net	(346,022)	(131,034)
Increase in policy loans	(9,658)	(10,442)
(Increase) decrease in other assets	(15,097)	6,686
Increase in policy reserves	189,134	129,039
Increase in liability for policy claims	-	16,635
Decrease (increase) in deposits on pending policy applications	(23,497)	99,774
Increase (decrease) in reinsurance premiums payable	5,011	(1,868)
Increase in commissions, salaries, wages and benefits payable	41,568	25,455
Decrease in accounts payable to affiliate	(2,048)	(18,047)
Increase in other liabilities	337,794	26,904
	-----	-----
Net cash provided by operating activities	\$ 313,939	\$ 140,064
	=====	=====

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	March 31, 2002 =====	March 31, 2001 =====
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES:		
Purchase of available-for-sale fixed maturities	\$(1,057,848)	\$ (1,731,814)
Sale or maturity of available-for-sale fixed maturities	973,000	651,000
Additions to property and equipment, net	(11,712)	(744,679)
Purchase of investments in affiliates	(2,341)	-
Changes in notes receivable, net	(25,000)	3,394
Short-term investments (acquired) disposed, net	425,011	646,629
	-----	-----
Net cash provided by (used in) investing activities	301,110	(1,175,470)

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FINANCING ACTIVITIES:

Proceeds from note payable	-	695,855
Payments on note payable	(19,570)	-
Deposits on annuity contracts, net	344,827	295,573
Purchase of treasury stock	-	0
	-----	-----
Policyholder premium deposits, net	(7,550)	19,240
	-----	-----
Net cash provided by financing activities	317,707	1,010,668
	-----	-----
Increase (decrease) in cash and cash equivalents	932,756	(24,738)
	-----	-----
Cash and cash equivalents, beginning of period	463,363	832,485
	-----	-----
Cash and cash equivalents, end of period	\$ 1,396,119	\$ 807,747
	=====	=====

See notes to condensed consolidated financial statements.

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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, 2002 and 2001 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 generally accepted accounting principles, 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, 2001. Certain reclassifications have been made in the prior period financial statements to conform with the current period presentation.

2. INVESTMENTS IN RELATED PARTIES

During 2001, the Company purchased a 50% interest in First Computer Services, LLC ("FCS"). FCS owns the computer hardware and software that operates a Company policy administration, underwriting, claim processing, and accounting system. The company uses the equity method to account for this investment, which is owned jointly by the Company and First Alliance Corporation. As of March 31, 2002, the carrying value of the FCS investment was \$103,997. This amount represents total capital contributions of \$117,534 reduced by the Company's \$13,538 share of the cumulative operating losses to date. Selected financial data for FCS at March 31, 2002 and for the period ended March 31, 2002 is listed below.

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Total Assets:	\$207,993
Total Liabilities:	-
Total Liabilities and Equity:	207,993
Loss from Operations:	(14,238)

3. DEBT

On February 12, 2002, the Company obtained a \$300,000 line of credit from Bank of America. The line of credit expires on February 12, 2003 and interest is accrued on the outstanding principal balance at Bank of America's Prime Rate, which is currently 6.00%. The line of credit was obtained solely to secure the issuance of standby letters of credit by the Company's subsidiary, First Life America Corporation ("FLAC"). The standby letters of credit are used to guarantee reserve credits taken by FLAC's reinsurers in conjunction with reinsurance agreements. At March 31, 2002, FLAC has a \$10,000 letter of credit secured by the line of credit agreement. FLAC has pledged bonds with a market value of \$25,000 as collateral for the letter of credit. As of March 31, 2002, the Company has not borrowed against this line of credit and does not anticipate utilizing the line of credit.

4. NET EARNINGS PER COMMON SHARE

Net income per common share for basic and diluted earnings per share is based upon the weighted average number of common shares outstanding during each period. The weighted average common shares outstanding was 5,273,985 and 5,303,860 at March 31, 2002 and March 31, 2001, respectively.

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5. 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.

6. RELATED PARTY TRANSACTIONS

Effective December 31, 1998, the Company entered into a service agreement with FLAC to provide personnel, facilities, and services to FLAC. The services to be performed pursuant to the service agreement were underwriting, claim processing, accounting, processing and servicing of policies, and other services necessary to facilitate FLAC's business. The agreement was in effect until either party provided ninety days written notice of termination. Under the agreement, FLAC paid monthly fees based on life premiums delivered by FLAC. The percentages were 25% of first year life premiums; 40% of second year life premiums; 30% of third year life premiums, 20% of fourth year life premiums and 10% of life premiums in years five and thereafter. FLAC retained general insurance expenses related to its sales agency, such as agent training and licensing, agency meeting expenses, and agent's health insurance.

Effective January 1, 2002, FLAC entered into a new service agreement with the Company. Under the terms of the agreement, the Company provides personnel, facilities, and services incident to the operations of FLAC. Services

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performed pursuant to the agreement are underwriting, claim processing, accounting, policy processing and other services necessary for FLAC to operate. The agreement is effective until either party provides 90 days written notice of termination. FLAC pays fees equal to the Company's cost of providing such services, including an appropriate allocation of the Company's overhead expenses, in accordance with generally accepted accounting principles. FLAC still bears all direct selling costs which include agent recruiting, training and licensing; agent commissions; any benefits or awards directly for or to agents or management including the cost of any life or health insurance; and any taxes (federal, state or county) directly related to the business of FLAC. Additionally, FLAC is responsible for any reinsurance premiums; legal expenses related to settlement of claims; state examination fees; directors fees and directors liability insurance; interest on indebtedness; costs related to mergers or acquisitions and costs related to fulfilling obligations of the life insurance and annuity contracts written by the agents of FLAC.

Pursuant to the terms of the above agreements, FLAC had incurred expenses of \$296,846 for the three months ended March 31, 2002 and \$181,055 for the three months ended March 31, 2001.

During March of 2002, the Company loaned \$25,000 to Arkansas Security Capital Corporation ("ASCC"). In exchange, the Company received a \$25,000 promissory note bearing interest at 8% per annum. The principal and interest is due on April 8, 2002.

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7. COMPREHENSIVE INCOME

The components of comprehensive income along with the related tax effects for the three months ended March 31, 2002 and 2001 are as follows:

	Three months ended	
	March 31 2002	March 31 2001
	=====	=====
Unrealized gain on available-for-sale securities:		
Unrealized holding gain (loss) during the period	\$ (115,332)	\$ 237,748
Tax benefit (expense)	40,365	(83,211)
	-----	-----
Other comprehensive income	\$ (74,967)	\$ 154,537
	=====	=====
Net income (loss)	\$ 1,408	\$ 91,967
Other comprehensive income (loss) net of tax effect:		
Unrealized investment gain (loss)	(74,967)	154,537
	-----	-----
Comprehensive income (loss)	\$ (73,559)	\$ 246,504
	=====	=====
Net income (loss) per common share-basic and diluted	\$ (0.01)	\$ 0.05
	=====	=====

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8. 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 operations. Segment information as of March 31, 2002 and December 31, 2001 and for the three months ended March 31, 2002 and 2001 is as follows:

	Three months ended	
	March 31, 2002	March 31, 2001
	=====	=====
Revenues		
Life and annuity insurance operations	\$ 954,018	\$ 668,557
Corporate operations	123,428	118,406
	-----	-----
Total	\$ 1,077,445	\$ 786,963
	=====	=====
Income (loss) before income taxes:		
Life and annuity insurance operations	\$ 276,843	\$ 187,078
Corporate operations	(165,279)	(38,231)
	-----	-----
Total	\$ 111,564	\$ 148,847
	=====	=====
Depreciation and amortization expense:		
Life and annuity insurance operations	\$ 53,242	\$ 55,762
Corporate operations	32,798	3,977
	-----	-----
Total	\$ 86,040	\$ 59,739
	=====	=====

Segment asset information as of March 31, 2002 and December 31, 2001.

	2002	2001
	=====	=====
Assets:		
Life and annuity insurance operations	\$ 9,911,051	\$ 8,795,709
Corporate operations	8,222,624	8,444,254
	-----	-----
Total	\$ 18,133,675	\$ 17,239,963
	=====	=====

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The Company makes forward-looking statements from time to time and desires to take advantage of the "safe harbor" which 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 risks and uncertainties.

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

Financial Condition

Significant changes in the consolidated balance sheets from December 31, 2001 to March 31, 2002 are highlighted below.

Total assets increased from \$17,239,963 at December 31, 2001 to \$18,133,675 at March 31, 2002. The Company's available-for-sale fixed maturities had a fair value of \$8,578,396 and amortized cost of \$8,399,223 at March 31, 2002. This investment portfolio is reported at market value with unrealized gains and losses, net of applicable deferred taxes, reflected as a separate component in Shareholders' Equity.

Notes receivable increased to \$25,000 at March 31, 2002 from \$0 at December 31, 2001. This increase is due to the issuance of a note to Arkansas Security Capital Corporation. Refer to Note 6 for more information.

Several of the short-term investments held by the Company were either sold or matured during the three months ended March 31, 2002, and the proceeds were converted to cash. This resulted in a \$434,150 or 19% decrease in short-term investments.

Cash and cash equivalents increased from \$463,363 at December 31, 2001 to \$1,396,119 at March 31, 2002. The increase in cash is primarily a result of a \$434,150 net change in short-term investments and \$313,939 provided by operating activities. The remaining change of \$184,667 is the result of other insurance operations. Refer to the statement of cash flows for more sources and uses of cash.

Accounts receivable increased (52%) from \$104,447 at December 31, 2001 to \$158,266 at March 31, 2002. The increase is due primarily to a \$50,000 increase in amounts due from agents. These amounts are expected to be fully recoverable.

Deferred policy acquisition costs, net of amortization, increased 18% from \$1,928,820 at December 31, 2001 to \$2,274,842 at March 31, 2001 resulting from the capitalization of acquisition expenses related to the increasing sales of life insurance. These acquisition expenses include commissions and other fees incurred in the first policy year.

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Liabilities increased to \$6,917,313 at March 31, 2002 from \$5,950,041 at December 31, 2001. A significant portion of this increase is due to life insurance related policy liabilities. Policy reserves established due to the sale of life insurance increased \$189,134 or 12% from 2001 to 2002. These reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. Liabilities for policy claims are recorded based on reported death.

There was a 26% increase in the amount of \$374,425 for annuity contract liabilities from December 31, 2001 to March 31, 2002. According to the design of FLAC's primary life insurance product, first year premiums payments are allocated 100% to life insurance and renewal payments are split 50% to life and 50% to annuity. In the first three months of 2002, annuity contract liabilities increased as additional policies reached the second policy year.

Other liabilities increased to \$366,803 at March 31, 2002 from \$28,395 at December 31, 2001. The increase of \$338,408 is primarily due to the accrual of \$316,323 due for the purchase of long term bonds.

Federal income taxes payable have increased 13% from \$534,406 at December 31, 2001 to \$603,391 at March 31, 2002. Federal income taxes payable are due to deferred taxes established based on timing differences between income recognized for financial statements and taxable income for the Internal Revenue Service. These deferred taxes are based on the operations of FLAC and on unrealized gains of fixed maturities.

Results of Operations

Revenues for the three months ended March 31, 2002 totaled \$1,077,445 as compared to \$786,963 for the same period of 2001. The increase is primarily due to an increase in net premium income of \$295,411 resulting from the growth in the policyholder base. A decrease in net investment income of \$73,502 was primarily a result of significantly lower investment yields. Rental income increased \$70,544 due to the Company having no rental income during the same period of 2001.

Benefits and expenses for the three months ended March 31, 2002 totaled \$965,881 as compared to \$638,116 for the same period of 2001. The total increase in benefits and expenses are \$327,765 or 51%. Other operating costs accounted for \$159,213 of the total increase due to increases in depreciation, interest expense, building expenses, and advertising. Salaries and wages increased \$159,227 during the same period of 2002 as a result of an increase in the number of employees. Commissions increased \$153,063 during the same period of 2002 due to the increase in premium income and increased sales of the final expense product. FLAC began marketing the final expense product during the fourth quarter of 2001. Commission rates paid on first year premiums received on the final expense product are typically higher than those paid on the other products being marketed by FLAC. These increases are offset by an increase in the deferral of policy acquisition costs of \$212,468.

Liquidity and Capital Resources

During the quarters ended March 31, 2002 and 2001, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity for fixed maturity investments. Net cash provided by operating activities during the periods ended March 31, 2002 and 2001 totaled \$306,819 and \$140,064 respectively. Cash provided by growing insurance operations during these periods is the primary reason for the positive cash flows from operating activities. Growing insurance operations also provided a larger invested asset base in each period presented, which contributed to additional cash flows from cash collected on interest income from investments.

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FLAC's insurance operations generally receive adequate cash flows from premium collections and investment income to meet their obligations. 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. A significant portion of the Company's invested assets are readily marketable and highly liquid.

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Item 6. Exhibits and Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended March 31, 2002.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST AMERICAN CAPITAL CORPORATION

5/10/02	By:	/s/ Rickie D. Meyer
=====		=====
Date:		Rickie D. Meyer, President/Director
5/10/02	By:	/s/ Phillip M. Donnelly
=====		=====
Date:		Phillip M. Donnelly, Secretary/Treasurer

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