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FIRST AMERICAN CAPITAL CORP /KS
Form 10QSB
May 17, 2004

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the quarterly period ended March 31, 2004.

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

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 - 4,687,078 shares as of May 1, 2004

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

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FIRST AMERICAN CAPITAL CORPORATION

INDEX TO FORM 10-QSB

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Condensed Consolidated Balance Sheets as of March 31, 2004 and December 31, 2003.....

Condensed Consolidated Statements of Operations for the three months ended March 31, 2004 and 2003.....

Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2004 and 2003.....

Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2004 and 2003.....

Notes to Condensed Consolidated Financial Statements.....

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....

Item 3. Controls and Procedures.....

Part II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.....

SIGNATURES.....

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
March 31,
2004

December 31,
2003

ASSETS

Investments:

Securities available for sale, at fair value:

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Fixed maturities (amortized cost, \$5,666,787 in 2004 and \$11,432,605 in 2003)	\$	5,877,061	\$	12,
Equity securities (cost of \$41,800 in 2004 and 2003)		41,800		
Investments in real estate		274,564		
Policy loans		56,919		
Notes receivable (net of valuation allowance of \$0 in 2004 and \$0 in 2003)		3,421		
Short-term investments		455,614		
		-----		-----
Total investments		6,709,379		12,
Cash and cash equivalents		928,792		
Receivable for securities		6,620,731		
Investments in related parties		54,597		
Accrued investment income		112,082		
Accounts receivable		244,177		
Deferred policy acquisition costs (net of accumulated amortization of \$2,505,978 in 2004 and \$2,312,021 in 2003)		4,160,474		4,
Property and equipment (net of accumulated depreciation of \$410,971 in 2004 and \$383,199 in 2003)		2,811,250		2,
Other assets		10,938		
		-----		-----
Total assets	\$	21,652,420	\$	20,
		=====		=====

See notes to condensed consolidated financial statements.

3

FIRST AMERICAN CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

		Unaudited March 31, 2004

LIABILITIES AND SHAREHOLDERS' EQUITY		
Policy and contract liabilities:		
Future annuity benefits	\$	5,521,452
Future policy benefits		3,497,508
Liability for policy claims		65,564
Policyholder premium deposits		205,994
Deposits on pending policy applications		7,095
Reinsurance premiums payable		29,241

Total policy and contract liabilities		9,326,854
Commissions, salaries, wages and benefits payable		78,261
Other liabilities		225,332
Note payable		1,830,298

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Deferred federal income taxes payable	679,073

Total liabilities	12,139,818
Shareholders' equity:	
Common stock, \$.10 par value, 8,000,000 shares authorized; 5,449,578 shares issued and 4,687,078 shares outstanding in 2004 and 2003	544,958
Additional paid in capital	12,380,523
Accumulated deficit	(2,195,363)
Accumulated other comprehensive income	167,967
Less: Treasury stock held at cost (762,500 shares in 2004 and 2003)	(1,385,483)

Total shareholders' equity	9,512,602

Total liabilities and shareholders' equity	\$ 21,652,420
	=====

See notes to condensed consolidated financial statements.

4

FIRST AMERICAN CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited)	
	Three months ended	
	March 31, 2004	March 31, 2003
	-----	-----
Revenues:		
Gross premium income	\$ 1,084,394	\$ 1,203,771
Reinsurance premiums assumed	1,182	738
Reinsurance premiums ceded	(47,610)	(45,013)
	-----	-----
Net premium income	1,037,966	1,159,496
Net investment income	122,403	143,873
Net realized investment gain	464,363	341
Rental income	45,498	53,857
	-----	-----
Total revenue	1,670,230	1,357,567
Benefits and expenses:		
Increase in policy reserves	369,016	279,485
Policyholder surrender values	21,714	15,950
Interest credited on annuities and premium deposits	76,448	62,114
Death claims	81,622	69,083
Commissions	293,254	408,668
Policy acquisition costs deferred	(343,471)	(471,471)

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Amortization of deferred policy acquisition costs	193,956	86,610
Salaries, wages, and employee benefits	269,448	395,217
Miscellaneous taxes	30,446	10,298
Other operating costs and expenses	287,812	414,759
	-----	-----
Total benefits and expenses	1,280,245	1,270,713
	-----	-----
Income before income tax expense	389,985	86,854
	-----	-----
Income tax expense	22,509	144,133
	-----	-----
Net income (loss)	\$ 367,476	\$ (57,279)
	=====	=====
Net income (loss) per common share - basic and diluted	\$ 0.08	\$ (0.01)
	=====	=====

See notes to condensed consolidated financial statements.

5

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited)	
	Three months ended	
	March 31, 2004	March 31, 2003
	-----	-----
Net income (loss)	\$ 367,476	\$ (57,279)
Unrealized (loss) gain on available-for-sale securities:		
Unrealized holding gain during the period	75,712	17,754
Less: Reclassification for gains included in net income	464,363	341
Tax benefit (expense)	104,316	(6,096)
	-----	-----
Other comprehensive (loss) income	(284,335)	11,317
	-----	-----
Comprehensive income (loss)	\$ 83,141	\$ (45,962)
	=====	=====
Net income (loss) per common share-basic and diluted	\$ 0.02	\$ (0.01)
	=====	=====

See notes to condensed consolidated financial statements.

6

FIRST AMERICAN CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) March 31, 2004 -----	(Unaudited) March 31, 2003 -----
OPERATING ACTIVITIES:		
Net income (loss)	\$ 367,476	\$ (57,279)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Interest credited on annuities and premium deposits	76,448	69,322
Net realized investment gain	(464,363)	(341)
Provision for depreciation	27,772	31,378
Equity loss in investment in affiliate	10,603	11,444
Amortization of premium and accretion of discount on fixed maturity and short-term investments	41,344	13,104
Provision for deferred federal income taxes	22,509	144,133
Decrease (increase) in accrued investment income	68,987	(21,122)
Decrease (increase) in accounts receivable	52,189	(38,479)
Increase in deferred policy acquisition costs, net	(149,515)	(384,861)
Decrease (increase) in policy loans	3,532	(7,361)
Increase in other assets	(3,290)	(25,064)
Increase in future policy benefits	369,017	279,485
Decrease in liability for policy claims	(42,454)	(4,003)
Decrease in deposits on pending policy applications	(25,396)	(42,581)
Decrease in reinsurance premiums payable	(2,472)	(1,901)
Increase in commissions, salaries, wages and benefits payable	25,246	15,736
Increase in other liabilities	51,055	81,769
	-----	-----
Net cash provided by operating activities	\$ 428,688	\$ 63,379

See notes to condensed consolidated financial statements.

7

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	(Unaudited) March 31, 2004 -----	(Unaudited) March 31, 2003 -----
INVESTING ACTIVITIES:		
Purchase of available-for-sale fixed maturities	\$ (431,052)	\$ (617,925)
Sale or maturity of available-for-sale fixed maturities	4,713	300,000
Additions to property and equipment	(2,210)	(12,440)
Purchase of investments in affiliates	--	(10,000)
Payments on notes receivable	10,320	2,404
Purchases of short-term investments	--	200,000
	-----	-----
Net cash used in investing activities	(418,229)	(137,961)
FINANCING ACTIVITIES:		
Payments on note payable	(12,709)	(20,956)
Deposits on annuity contracts	615,398	517,209
Surrenders on annuity contracts	(67,860)	(25,005)
Policyholder premium deposits	3,721	18,057
Withdrawals on policyholder premium deposits	(18,006)	(16,128)
	-----	-----
Net cash provided by financing activities	520,544	473,177
	-----	-----
Increase in cash and cash equivalents	531,003	398,595
Cash and cash equivalents, beginning of period	397,789	400,062
	-----	-----
Cash and cash equivalents, end of period	\$ 928,792	\$ 798,657
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH ACTIVITIES:		
Interest paid	\$ 27,893	\$ 33,044
	=====	=====
Income taxes paid	\$ --	\$ --
	=====	=====
SCHEDULE OF NON-CASH INVESTING TRANSACTIONS:		
Receivable on sale of securities	\$ 6,620,731	\$ --
	=====	=====

See notes to condensed consolidated financial statements.

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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, 2004 and 2003 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, 2003. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

2. INVESTMENTS IN RELATED PARTIES

The Company owns a 50% interest in First Computer Services, LLC ("FCS"). FCS owns the computer hardware and software that operates the Company's 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 ("FAC") of Lexington, Kentucky. As of March 31, 2004 and December 31, 2003, the carrying value of the FCS investment was \$54,597 and \$65,200, respectively. The current year amount represents an investment of \$146,500 reduced by cumulative net operating losses totaling \$91,903. Selected financial data for FCS for the period ended March 31, 2004 is listed below.

Total Assets:	\$ 109,193
Total Liabilities:	0
Total Liabilities and Equity:	109,193
Loss from Operations:	(21,206)

3. 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 number of common shares outstanding was 4,687,078 for the three months ended March 31, 2004 and March 31, 2003, 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 subsidiary, First Life America Corporation ("FLAC") commencing with the year ended December 31, 2003. 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.

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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, the Company's former President, arising, in part, out of Mr. Meyer's employment with the Company. Among other things, the Company is seeking to recover expense reimbursements previously paid to Mr. Meyer and Company funds allegedly misappropriated by Mr. Meyer. In this regard, the petition alleges that

9

5. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Mr. Meyer abused Company policies related to claiming business- related expense reimbursements by submitting expense reports for goods and services purchased for personal use. The petition further alleges that Mr. Meyer misappropriated funds from the Company by fraudulently altering a check made payable to the Company. The Company is also seeking to have Mr. Meyer reimburse it for the amount it paid another insurance company in settlement of a claim. 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. The petition asserts that Mr. Meyer entered into the marketing agreements despite knowing that the Company could not perform on the financial requirements of the agreements and without the knowledge, approval or authorization of the Company's Board of Directors as required by the agreements.

On December 12, 2003, Mr. Meyer filed an Answer and Counterclaim against FACC asserting claims for defamation and breach of employment agreement. Mr. Meyer seeks damages in excess of \$75,000 plus interest and costs on his defamation claims. Mr. Meyer seeks damages in the amount of \$250,000 for an alleged breach of a provision in his employment contract regarding severance pay; he seeks additional damages in excess of \$75,000 for an alleged breach of a provision in the employment contract relating to payment of residual commissions.

FACC denies Mr. Meyer's allegations and will defend against them as well as pursue its lawsuit against Mr. Meyer.

6. 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 for the three months ended March 31, 2004 and 2003 and as of March 31, 2004 and December 31, 2003 is as follows:

	Three months ended	
	March 31, 2004	March 31, 2003
	-----	-----
Revenues:		
Life and annuity insurance operations	\$ 1,416,710	\$ 1,271,184
Corporate operations	253,520	86,383
	-----	-----
Total	\$ 1,670,230	\$ 1,357,567

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	=====	=====
Income (loss) before income taxes:		
Life and annuity insurance operations	\$ 388,381	\$ 325,819
Corporate operations	1,604	(238,965)
	-----	-----
Total	\$ 389,985	\$ 86,854
	=====	=====
Depreciation and amortization expense:		
Life and annuity insurance operations	\$ 193,956	\$ 86,610
Corporate operations	27,772	31,378
	-----	-----
Total	\$ 221,728	\$ 117,988
	=====	=====

	March 31,	December 31,
	2004	2003
	-----	-----
Assets:		
Life and annuity insurance operations	\$ 16,170,650	\$ 15,053,265
Corporate operations	5,481,770	5,625,835
	-----	-----
Total	\$ 21,652,420	\$ 20,679,100
	=====	=====

10

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" 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.

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Financial Condition

Significant changes in the condensed consolidated balance sheets from December 31, 2003 to March 31, 2004 are highlighted below.

Total assets increased from \$20,679,100 at December 31, 2003 to \$21,652,420 at March 31, 2004. The Company's available-for-sale fixed maturity securities had a fair value of \$5,877,061 and \$12,032,106 at March 31, 2004 and December 31, 2003, 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. The decrease in available-for-sale fixed maturity securities is attributable to the sale of a significant portion of the Company's bond portfolio during the quarter ended March 31, 2004. The bonds were sold in an attempt to realize market gains and to reinvest the resulting assets using a new investment approach. The new approach is focused primarily on matching investment 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. Given the timing of the sales, the resulting assets could not be reinvested into the various securities markets prior to the end of the quarter, thus resulting in the \$6,620,731 receivable for securities at March 31, 2004.

Notes receivable decreased \$10,320 or 75% from \$13,741 at December 31, 2003 to \$3,421 at March 31, 2004. The note was to be payable in 36 equal monthly installments and bear interest at 8% per annum. During 2003, the note was called as a result of the employee failing to pay one of the monthly installments when due. Subsequent to the note being called, demand payments have been recovered from both the employee and the guarantor of the note.

Cash and cash equivalents increased \$531,003 from \$397,789 at December 31, 2003 to \$928,792 at March 31, 2004. Refer to the statement of cash flows for sources and uses of cash.

Investments in related parties decreased from \$65,200 at December 31, 2003 to \$54,597 at March 31, 2004. The decrease is due to the Company's 50%, or \$10,603, share of FCS' net loss from operations during the year.

Accrued investment income decreased \$68,987 or 38% from \$181,069 at December 31, 2003 to \$112,082 at March 31, 2004. The decrease in accrued investment income is attributable to the sale of a significant portion of the bond portfolio prior to the end of the quarter.

Accounts receivable decreased 18% from \$296,366 at December 31, 2003 to \$244,177 at March 31, 2004. The decrease is primarily due to a \$17,940 decrease in amounts due from agents, a \$13,265 decrease in due premiums, and a \$21,089 decrease in income tax recoverable. These amounts are expected to be fully recoverable.

Deferred policy acquisition costs, net of amortization, increased 4% from \$4,010,959 at December 31, 2003 to \$4,160,474 at March 31, 2004 resulting from the capitalization of acquisition expenses related to the increasing 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.

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Property and equipment net of accumulated depreciation decreased by 1% from \$2,836,814 at December 31, 2003 to \$2,811,250 at March 31, 2004. The decrease is attributable to depreciation expense of \$27,772 and capitalization of assets of \$2,210.

Liabilities increased to \$12,139,818 at March 31, 2004 from \$11,249,639 at December 31, 2003. 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 \$369,017 or 12% from December 31, 2003 to March 31, 2004. These reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. Reserves for future annuity benefits increased \$621,682 or 13% from December 31, 2003 to March 31, 2004. 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. In 2004, annuity contract liabilities increased as additional policies reached the second policy year and the renewal policy base grew larger.

Liabilities for policy claims decreased \$42,454 at March 31, 2004 compared to December 31, 2003. The decrease is due to a decrease in the number of unpaid claims at March 31, 2004.

Deposits on pending policy applications decreased to \$7,095 at March 31, 2004 from \$32,491 at December 31, 2003. Deposits on pending policy applications represent money submitted with policy applications that have not yet been approved. Any increases or decreases in this liability from year to year are attributable to the timing of the approval and delivery of any new business which has been submitted to the Company.

Commissions, salaries, wages and benefits payable increased \$25,246 or 48% from \$53,015 at December 31, 2003 to \$78,261 at March 31, 2004. The increase is attributable to an increase in the number of employees at March 31, 2004 compared to December 31, 2003 and the timing issues associated with payroll dates.

Other liabilities increased \$51,055 from \$174,277 at December 31, 2003 to \$225,332 at March 31, 2004. There was an increase of \$52,049 in accounts payable due to the timing of the receipt of significant invoices for legal, auditing services, actuarial services and property taxes.

Deferred federal income taxes payable decreased to \$679,073 at March 31, 2004 from \$760,881 at December 31, 2003. Federal income taxes payable are due to deferred taxes 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 gains of fixed maturity securities. The decrease in deferred taxes payable is primarily attributable to the sale of a significant portion of the Company's bond portfolio during the quarter, thus reducing the amount of unrealized gains present in such portfolio at March 31, 2004.

Results of Operations

Significant components of revenues include life insurance premiums, net of reinsurance, net investment income, and net realized investment gain. The following table provides information concerning net premium income for the three

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months ended March 31, 2004 and 2003:

	Three months ended March 31, 2004	March 31, 2003
	-----	-----
Whole life insurance:		
First year	\$ 286,983	\$ 554,841
Renewal	793,692	643,460
Term insurance:		
First year	630	--
Renewal	1,470	2,070
Single premium	1,620	3,400
	-----	-----
Gross premium income	1,084,394	1,203,771
Reinsurance premiums assumed	1,182	738
Reinsurance premiums ceded	(47,610)	(45,013)
	-----	-----
Net premium income	\$ 1,037,966	\$ 1,159,496
	=====	=====

Net premium income decreased \$121,530 or 10% from the three months ended March 31, 2003 to the same period during 2004. Total first year whole life premium decreased \$267,858 or 48% from 2003 to 2004. Total renewal year whole life premiums increased \$150,232 or 23% from 2003 to 2004. First year whole life premiums collected on the Company's FA2000 product have decreased as a result of the disruptive affect of the Company's 2003 proxy contest on its customers, shareholders and its marketing agents used to market the Company's FA2000 product. The Company anticipates the reduction in FA2000 production will continue through the remainder of 2004. The decrease in FA2000 production has been partially offset by an increase in production of the Company's Final Expense product. Management is presently reviewing its product portfolio in an effort to manage production to both the needs and capacity of the Company.

Net investment income decreased \$21,470 or 15% from the three months ended March 31, 2003 to the same period during 2004. During 2003 excess cash was used to purchase available-for-sale fixed maturity investments, with lower yields as compared to bonds that have been purchased in prior years. The decrease in yields resulted in the decrease in net investment income for the three months ended March 31, 2004.

Net realized investment gain increased \$464,022 from the three months ended March 31, 2003 to the same period during 2004. The increase is attributable to the sale of a significant portion of the Company's bond portfolio during the three months ended March 31, 2004. Gains totaling \$464,363 were realized upon the sale of these bonds. The proceeds from the sale will be reinvested using a new investment approach focused primarily on matching investment maturities to the anticipated cash needs of the Company.

Rental income decreased from \$53,857 during the three months ended March 31, 2003 to \$45,498 during the same period in 2004. Rental income is earned by leasing approximately 12,500 square feet of office space in the home office building. The Company has executed a 10 year inclusive non cancelable lease on 10,000 square feet of the office space. The decrease in rental income resulted from a month to month lease for the remaining 2,500 square feet of available

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office space being cancelled in December of 2003. The space is currently on the market for lease.

Benefits and expenses totaled \$1,280,245 and \$1,270,713 during the three months ended March 31, 2004 and 2003, respectively. Included in total benefits and expenses were policy reserve increases of \$369,016 and \$279,485 during three months ended March 31, 2004 and 2003, 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, it is reasonable for policy reserves to continue to increase.

13

Policyholder surrender values increased \$5,764 from \$15,950 during the three months ended March 31, 2003 to \$21,714 during the same period in 2004. This increase is attributable to the maturation of policies.

Interest credited on annuities and premium deposits totaled \$76,448 and \$62,114 for the three months ended March 31, 2004 and 2003, respectively. The increase during 2004 of \$14,334 or 23% 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 in force.

Death claims increased \$12,539 from \$69,083 during the three months ended March 31, 2003 to \$81,622 during the same period in 2004. The increase is attributable to the maturation of policies.

Commission expense totaled \$293,254 and \$408,668 for the three months ended March 31, 2004 and 2003, respectively. Commission expense is based on a percentage of premium and is determined in the product design. Additionally, higher percentage commissions are paid for first year business than renewal year. The decrease in commission expense is directly related to the decrease in first year premium income during the three months ended March 31, 2004.

Acquisition costs related to the sale of insurance are capitalized and amortized over the life of the associated policies. These costs include commissions on first year business, medical exams and inspection report fees, and salaries of employees directly involved in the marketing, underwriting and policy issuance functions. During the three months ended March 31, 2004 and 2003, \$343,471 and \$471,471, respectively, of these costs had been capitalized as deferred policy acquisition costs. The related amortization for the same periods totaled \$193,956, and \$86,610, respectively.

Salaries, wages and employee benefits decreased from \$395,217 during the three months ended March 31, 2003 to \$269,448 during the same period in 2004. The decrease during 2004 is primarily attributable to the decrease in employee headcount during the three months ended March 31, 2004 in comparison to the same period in 2003. Included in the decrease was a \$25,405 decrease in incentive compensation resulting from the Company opting not to renew the employment contracts of prior executive management.

Other operating costs and expenses totaled \$287,812, and \$414,759 for the three months ended March 31, 2004 and 2003, respectively. Significant components of the \$126,947 decrease from 2003 to 2004 include the following: decrease in office expenses of \$41,714; decrease in director fees of \$38,085; decrease in travel, meals, lodging and entertainment expenses of \$19,520; decrease in ABM fees of \$12,230.

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Liquidity and Capital Resources

During the quarters ended March 31, 2004 and 2003, 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 three months ended March 31, 2004 and 2003 totaled \$428,688 and \$63,379, 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. A significant portion of the Company's invested assets are readily marketable and highly liquid.

Management of the Company has identified that there may be a need for additional capital in the long term. Such capital could be used on a working capital basis or to grow the business. In the event that additional capital is deemed necessary, the Company may seek to sell additional equity securities, debt securities or to borrow monies.

The Company's former President and Chief Executive Officer has made a demand on the Company for the payment of \$250,000 in severance benefits under his employment agreement. The Company denies any such obligation. See Note 5 of the Condensed Consolidated Financial Statements for other claims made by the former President and CEO. If these claims are found to be meritorious, the Company's liquidity could be adversely affected.

14

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. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the Company's disclosure controls and procedures were adequate.

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 Chief Financial Officer.

15

PART II

OTHER INFORMATION

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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 10-KSB filed March 31, 2003)
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 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	Operating Agreement of First Computer Services, LLC dated December 1, 2001 (Incorporated by reference from Exhibit 10.10 to the Registrant's Form 10-KSB filed March 31, 2003)
10.4	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)
10.5	Employment Agreement effective February 16, 2004 between First American Capital Corporation and John F. Van Engelen (Incorporated by reference from Exhibit 10.5 to the Registrant's Form 10-KSB filed March 29, 2004)
10.6	Intercompany 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)
21	Subsidiaries of First American Capital Corporation (Incorporated by reference from Exhibit 21 to the Registrant's Form 10-KSB filed March 31, 2003)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*)

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32.1 Certificate of Chief Executive Officer pursuant to Section 18
U.S.C. Section 1350 (*)

16

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (CONTINUED)

Exhibit No. -----	Description -----
32.2	Certificate of Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350 (*)

(*) Filed herewith

b) Reports on Form 8-K

The Company filed a current report on Form 8-K dated January 29, 2004 announcing current developments. The Company filed a current report on Form 8-K dated February 23, 2004 announcing that John Van Engelen was named President and CEO of the Company. The Company filed a current report on Form 8-K dated March 16, 2004 announcing current developments. Subsequent to the quarter ended March 31, 2004, the Company filed a current report on Form 8-K dated April 15, 2004 announcing the change in the Company's independent accountants.

17

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: 5/17/2004

By: /s/ John F. Van Engelen

John F. Van Engelen
President and Chief Executive Officer

Date: 5/17/2004

By: /s/ Harland E. Priddle

Harland E. Priddle
Secretary, Treasurer & Chief
Financial Officer

