FIRST AMERICAN CAPITAL CORP /KS
Form 10QSB
November 15, 2004

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 September 30, 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 [X] 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 November 1, 2004

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

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FIRST AMERICAN CAPITAL CORPORATION

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2004	December 3 2003
ASSETS		
Investments:		
Securities available-for-sale, at fair value:		
Fixed maturities (amortized cost, $12,986,761 in 2004 and $11,432,605 in 2003)	$ 13,176,335	$ 12,032,1
Equity securities (cost of $44,150 in 2004 and $41,800 in 2003)	45,650	41,8
Investments in real estate	274,564	274,5

Policy loans	72,321	60,4
Notes receivable (net of valuation allowance of $0 in 2004 and 2003)	-	13,7
Short-term investments	199,034	460,5
Other investments	129,026	
Total investments	13,896,930	12,883,2
Cash and cash equivalents	819,533	397,7
Investments in related parties	-	65,2
Accrued investment income	197,349	181,0
Accounts receivable	223,080	296,3
Deferred policy acquisition costs (net of accumulated amortization of $2,906,393 in 2004 and $2,312,021 in 2003)	4,359,203	4,010,9
Property and equipment (net of accumulated depreciation of $624,669 in 2004 and $383,199 in 2003)	2,817,614	2,836,8
Other assets	31,051	7,6
Total assets	$ 22,344,760	$ 20,679,1

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

	Unaudited September 30, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY	
Policy and contract liabilities:	
Future annuity benefits	$ 6,334,099
Future policy benefits	3,826,843
Liability for policy claims	90,541
Policyholder premium deposits	192,989
Deposits on pending policy applications	5,406
Reinsurance premiums payable	24,696
Total policy and contract liabilities	10,474,574
Commissions, salaries, wages and benefits payable	93,755
Other liabilities	342,985
Note payable	1,804,900
Deferred federal income taxes payable	626,774
Total liabilities	13,342,988
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	(2,691,808)
Accumulated other comprehensive income	153,582

Less: Treasury stock held at cost (762,500 shares in 2004 and 2003)	(1,385,483)
Total shareholders' equity	9,001,772
Total liabilities and shareholders' equity	$ 22,344,760

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three months ended	
	September 30, 2004	September 30, 2003
Revenues:		
Gross premium income	$ 827,664	$ 808,266
Reinsurance premiums assumed	3,198	1,756
Reinsurance premiums ceded	(22,449)	(27,553)
Net premium income	808,413	782,469
Net investment income	136,380	138,342
Net realized investment gain	-	4,479
Rental income	45,779	54,046
Other income	-	-
Total revenue	990,572	979,336
Benefits and expenses:		
Increase in policy reserves	159,912	120,105
Policyholder surrender values	59,035	22,837
Interest credited on annuities and premium deposits	89,054	80,378
Death claims	82,341	81,058
Commissions	248,221	246,138
Policy acquisition costs deferred	(303,230)	(281,729)
Amortization of deferred policy acquisition costs	208,909	178,051
Salaries, wages, and employee benefits	266,617	240,748
Miscellaneous taxes	33,329	32,338
Other operating costs and expenses	450,030	417,536
Total benefits and expenses	1,294,218	1,137,460
Loss before income tax expense	(303,646)	(158,124)
Income tax expense (benefit)	(28,716)	20,594
Net loss	$ (274,930)	$ (178,718)

Net loss per common share - basic and diluted	$ (0.06)	$ (0.04)

See notes to condensed consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited) Three months ended September 30, 2004	September 30, 2003
Net loss	$ (274,930)	$ (178,718)
Unrealized gain (loss) on available-for-sale securities:		
Unrealized holding gain (loss) during the period	112,712	(126,191)
Less: Reclassification for gains included in net income	-	4,479
Tax benefit (expense)	(22,640)	26,134
Other comprehensive income (loss)	90,072	(104,536)
Comprehensive loss	$ (184,858)	$ (283,254)
Comprehensive loss per common share-basic and diluted	$ (0.04)	$ (0.06)

See notes to condensed consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) September 30, 2004	(Una Septe 20
OPERATING ACTIVITIES:		
Net loss	$ (128,969)	$
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Interest credited on annuities and premium deposits	249,093	

Net realized investment gain	(464,361)	
Provision for depreciation	88,750	
Equity loss in investment in affiliate	28,516	
Amortization of premium and accretion of discount on fixed maturity and short-term investments	105,870	
Realized net loss on disposal of assets	-	
Provision for deferred federal income taxes	(25,507)	
Increase in accrued investment income	(16,280)	
Decrease (increase) in accounts receivable	73,286	
Increase in deferred policy acquisition costs, net	(348,244)	
Increase in policy loans	(11,870)	
(Increase) decrease in other assets	(23,403)	
Increase in future policy benefits	698,352	
(Decrease) increase in liability for policy claims	(17,477)	
Decrease in deposits on pending policy applications	(27,085)	
Decrease in reinsurance premiums payable	(7,017)	
Increase (decrease) in commissions, salaries, wages and benefits payable	40,740	
Increase in other liabilities	168,708	
Net cash provided by (used in) operating activities	$ 383,102	$

See notes to condensed consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	(Unaudited) September 30, 2004	(Una Septe
INVESTING ACTIVITIES:		
Purchase of available-for-sale fixed maturities	$ (9,059,880)	$ (1
Sale or maturity of available-for-sale fixed maturities	7,875,444	1
Purchase of available-for-sale equity securities	(2,350)	
Additions to property and equipment	(69,550)	
Dispositions of property plant and equipment	-	
Purchase of other investments	(128,860)	
Purchase of investments in affiliate	(11,500)	
Dispositions of investments in affiliates	48,184	
Payments on notes receivable	13,741	
Purchases of short-term investments	(3,925,512)	
Sale or maturity of short-term investments	4,176,782	
Net cash used in investing activities	(1,083,501)	
FINANCING ACTIVITIES:		
Payments on note payable	(38,107)	
Deposits on annuity contracts	1,404,897	1
Surrenders on annuity contracts	(213,455)	
Policyholder premium deposits	22,472	
Withdrawals on policyholder premium deposits	(53,664)	
Net cash provided by financing activities	1,122,143	1

Increase in cash and cash equivalents	421,744	
Cash and cash equivalents, beginning of period	397,789	
Cash and cash equivalents, end of period	$ 819,533	$
SUPPLEMENTAL DISCLOSURE OF CASH ACTIVITIES:		
Interest paid	$ 83,697	$
Income taxes paid	$ -	$

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 and nine month periods ended September 30, 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 that 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

Effective August 26, 2004, the Company purchased the remaining 50% joint venture interest in First Computer Services, LLC ("FCS") from First Alliance Corporation ("FAC") of Lexington, Kentucky (a copy of the Amendment of the Operating Agreement is attached at Exhibit 10.3). FCS owned the accounting hardware and software that operates the Company's policy administration, underwriting, claim processing, and accounting system. The aggregate purchase price for the remaining interest was $80,547, consisting of a single cash payment to FAC of $57,547 and the assumption of a $23,000 liability of FAC to FCS. The fair value of the remaining interest acquired was $48,184 consisting of 50% interests in computer hardware and software and an operating cash balance. The resulting loss of $32,363, representing the difference between the aggregate purchase price and the fair value of the remaining interest acquired, is included in other operating costs and expenses for the current quarter. Following the purchase of the remaining interest, FCS was dissolved with all assets being transferred to the Company.

Prior to the dissolution of FCS, the Company recorded its 50% investor share of joint venture losses using the equity method of accounting. The Company's share of joint venture losses totaled $7,169 and $28,516 for the three months and nine months ended September 30, 2004, respectively. These amounts are included in net investment income.

3. NET EARNINGS PER COMMON SHARE

Net 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. The weighted average number of common shares outstanding was 4,687,078 for the three months and nine months ended September 30, 2004 and 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 filed a consolidated federal income tax return with its subsidiary, First Life America Corporation ("FLAC") for 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.

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

5. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 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. No accrual of any loss or gain that may result from the resolution of these matters has been reflected in the financial statements. The amount of the ultimate loss or gain could differ materially.

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 and nine months ended September 30, 2004 and 2003 and as of September 30, 2004 and December 31, 2003 is as follows:

	Three months ended		Nine m
	September 30, 2004	September 30, 2003	September 30, 2004
Revenues:			
Life and annuity insurance operations	$ 942,989	$ 897,723	$ 3,226,725
Corporate operations	47,583	81,613	345,014
Total	$ 990,572	$ 979,336	$ 3,571,739
Income (loss) before income taxes:			
Life and annuity insurance operations	$ 36,973	$ 120,464	$ 432,091
Corporate operations	(340,619)	(278,588)	(586,567
Total	$ (303,646)	$ (158,124)	$ (154,476
Depreciation and amortization expense:			
Life and annuity insurance operations	$ 208,909	$ 178,051	$ 594,372
Corporate operations	33,030	30,631	88,750
Total	$ 241,939	$ 208,682	$ 683,122

	September 30, 2004
Assets:	
Life and annuity insurance operations	$ 17,352,409
Corporate operations	4,992,351
Total	$ 22,344,760

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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.

Financial Condition

Significant changes in the condensed consolidated balance sheets from December 31, 2003 to September 30, 2004 are highlighted below.

Total assets increased from $20,679,100 at December 31, 2003 to $22,344,760 at September 30, 2004. The Company's available-for-sale fixed maturity securities had a fair value of $13,176,335 and $12,032,106 at September 30, 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.

Short-term investments decreased $261,559 from $460,593 at December 31, 2003 to $199,034 at September 30, 2004. The decrease is attributable to bonds maturing during the nine months ended September 30, 2004, and the proceeds being used to purchase available-for-sale fixed maturity securities and other investments.

Other investments increased from $0 at December 31, 2003 to $129,026 at September 30, 2004. The increase is attributable to the purchase of an investment in lottery prize cash flows during the quarter ended September 30, 2004. This type of investment involves purchasing an assignment of the future payment rights from the winners of the lottery at a discounted price sufficient to meet the Company's yield requirements. Payments on this particular lottery prize will be made by a state run lottery 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 $819,533 at September 30, 2004 from $397,789 at December 31, 2003. 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 $0 at September 30, 2004. The decrease is attributable to the dissolution of the First Computer Services, LLC joint venture effective August 26, 2004.

Accounts receivable decreased 25% from $296,366 at December 31, 2003 to $223,080 at September 30, 2004. The decrease is primarily due to a $3,883 decrease in amounts due from agents, a $48,419 decrease in due premiums, and a $21,089 decrease in income tax recoverable. An allowance for uncollectible items is not deemed necessary with respect to these receivables.

Deferred policy acquisition costs, net of amortization, increased 9% from $4,010,959 at December 31, 2003 to $4,359,203 at September 30, 2004 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. No impairments have been recorded against the balance of deferred acquisition costs.

Property and equipment net of accumulated depreciation decreased less than 1% from $2,836,814 at December 31, 2003 to $2,817,614 at September 30, 2004. The decrease is attributable to the capitalization of assets of $69,550 offset by depreciation expense of $88,750.

Liabilities increased to $13,342,988 at September 30, 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 $698,352 or 22% from December 31, 2003 to September 30, 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 $1,434,329 or 29% from December 31, 2003 to September 30, 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.

Other liabilities increased $168,708 from $174,277 at December 31, 2003 to $342,985 at September 30, 2004. The increase is attributable to the timing of the payment of significant invoices for professional services. Refer to the discussion of other operating costs and expenses provided in the results of operations section for further details regarding the nature of professional services which have been obtained.

Deferred federal income taxes payable decreased to $626,774 at September 30, 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 first quarter of 2004, thus reducing the amount of unrealized gains present in such portfolio at September 30, 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 months and nine months ended September 30, 2004 and 2003:

	Three months ended September 30, 2004	Three months ended September 30, 2003
Whole life insurance:		
First year	$ 208,396	$ 233,311
Renewal	606,843	569,907
Term insurance:		
First year	100	370
Renewal	2,025	2,578
Single premium	10,300	2,100
Gross premium income	827,664	808,266
Reinsurance premiums assumed	3,198	1,756
Reinsurance premiums ceded	(22,449)	(27,553)
Net premium income	$ 808,413	$ 782,469

Net premium income decreased $196,882 or 7% from the nine months ended September 30, 2003 to the same period during 2004. Total first year whole life premium decreased $465,231 or 40% from 2003 to 2004. Total renewal year whole life premium increased $250,050 or 14% 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. Management anticipates the reduction in FA2000 production will continue through the remainder of 2004. As such, products are currently being developed in an effort to enhance production going forward. Management anticipates releasing several new annuity, term and whole life products during the early portion of 2005. The introduction of these new products, combined with the continued production of the Company's Final Expense product should enable the Company to reverse the negative first year production trends which have been experienced in recent months. While the reversal of these trends is a goal of management, so to is managing first year production to both the needs and capacity of the Company.

Net premium income increased $25,944 or 3% from the three months ended September 30, 2003 to the same period during 2004. Total first year whole life premium decreased $24,915 or 11% from 2003 to 2004. Total renewal year whole life premiums increased $36,936 or 6% from 2003 to 2004.

Net investment income decreased $77,138 or 18% from the nine months ended September 30, 2003 to the same period during 2004 and decreased $1,962 or 1% from the three months ended September 30, 2003 to the same period during 2004. During the first quarter of 2004 the Company sold a significant portion of its bond portfolio in order to realize market gains and reinvest the resulting proceeds using a new investment strategy. The new strategy is 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. The proceeds from the sale were used to purchase short-term securities with maturities ranging from 30 to 120 days. As these short term securities mature, the proceeds were reinvested in conjunction with the new investment strategy. 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 from the purchases of short term securities in 2004 and the purchases of lower yielding bonds in 2003 resulted in the decrease in net investment income for the nine month and three month periods ended September 30, 2004.

Net realized investment gain increased $459,541 from the nine months ended September 30, 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 2004.

Rental income decreased from $161,758 during the nine months ended September 30, 2003 to $136,774 during the same period in 2004 and decreased from $54,046 during the three months ended September 30, 2003 to $45,779 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 office space being cancelled in December of 2003. The space is currently on the market for lease.

Benefits and expenses totaled $3,726,215 and $3,904,704 during the nine months ended September 30, 2004 and 2003, respectively. Included in total benefits and expenses were policy reserve increases of $698,352 and $597,996 during the nine months ended September 30, 2004 and 2003, respectively. Benefits and expenses totaled $1,294,218 and $1,137,460 during the three months ended September 30, 2004 and 2003, respectively. Included in total benefits and expenses were policy reserve increases of $159,912 and $120,105 during the three months ended September 30, 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, policy reserves will continue to increase.

Commission expense totaled $783,210 and $975,879 for the nine months ended September 30, 2004 and 2003, respectively and $248,221 and $246,138 for the three months ended September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2004 and 2003, $942,616 and $1,140,006, respectively, of these costs had been capitalized as deferred policy acquisition costs. The related amortization for the same periods totaled $594,372, and $399,468, respectively. During the three months ended September 30, 2004 and 2003, $303,230 and $281,729, respectively, of these costs had been capitalized as deferred policy acquisition costs. The related amortization for the same periods totaled $208,909, and $178,051, respectively.

Salaries, wages and employee benefits decreased from $921,621 during the nine months ended September 30, 2003 to $821,240 during the same period in 2004. The decrease during 2004 is primarily attributable to the decrease in employee headcount during the nine months ended September 30, 2004 in comparison to the same period in 2003. Included in the decrease was a $35,294 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 $1,051,861 and $1,566,058 for the nine months ended September 30, 2004 and 2003, respectively. The decrease of $514,197 results primarily from the nonrecurrance of the professional fees and expenses incurred by the Company during the 2003 period in connection with its annual meeting of stockholders for that year and a related proxy contest and resulting litigation. These professional fees and expenses totaled $493,984 in 2003, as compared with professional fees and expenses of $98,726 incurred in support of the 2004 annual meeting of stockholders. The decrease in other operating costs and expenses in the 2004 period also is attributable to payment in the 2003 period of $165,000 in settlement of a claim by AF&L, Inc. that the Company had breached various marketing agreements. These decreases were partially offset by payment of $117,695 of professional service fees incurred in the 2004 period in support of the activities of a special committee of the Board of Directors of the Company, described as follows. On July 12, 2004, a third party filed an amendment to a Schedule 13D previously filed by such party, stating that it may explore the acquisition of additional shares of the Company's common stock through private negotiations or a tender offer for the purpose, among other things, of possibly obtaining control of the Company and replacing all or substantially all of the members of the Company's board of directors and management. The Board of Directors of the Company, acting on behalf of all shareholders in accordance with the legal obligations arising as a result of the public statements made by the third party, charged a special committee of independent directors with evaluating these actions and preparing for an appropriate response in the event that the third party takes actions in furtherance of its public

statements. The actions of the special committee included the retention of independent outside legal counsel, financial advisors, and actuaries. The costs of these extraordinary activities comprise the offset amounts described above. Other operating costs and expenses totaled $450,030 and $417,536 for the three months ended September 30, 2004 and 2003, respectively. The increase of $32,494 is largely attributable to the professional service fees incurred during the 2004 period in support of the activities of the aforementioned special committee.

Liquidity and Capital Resources

During the quarters ended September 30, 2004 and 2003, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity to purchase fixed maturity and short-term investments. Net cash provided by (used in) operating activities during the nine months ended September 30, 2004 and 2003 totaled $383,102 and $(439,722), 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. 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. In addition, management may consider either the feasibility of selling its home office building or leveraging the equity in its home office building in an effort to release funds for use in other business endeavors.

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.

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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 as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the Company's disclosure controls and procedures were effective.

During the period covered by this report, the Company made no significant changes in its internal controls over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Part II, Item 4 to the Registrant's Form 10-QSB filed August 12, 2004 is incorporated by reference.

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

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 July 9, 2004 announcing the issuance of a news release regarding the appointment of the Company's directors and officers effective July 6, 2004.

The Company filed a current report on Form 8-K dated July 15, 2004 announcing the issuance of a newsletter to its shareholders regarding the recent actions by Brooke Corporation.

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: 11/15/04

By: /s/ John F. Van Engelen
John F. Van Engelen
President and Chief Executive Officer

Date: 11/15/04

By: /s/ Patrick A. Tilghman
Patrick A. Tilghman
Treasurer and Chief Financial Officer