FIRST AMERICAN CAPITAL CORP /KS
Form 10KSB
March 31, 2005

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

FORM 10-KSB

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 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
(Name of small business issuer in its charter)

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

1303 SW First American Place, Topeka, KS 66604
(Address of principal executive offices)

Issuer's telephone number (785) 267-7077

Securities registered under 12(b) of the Act:
Title of Each Class
NONE

Securities registered under Section 12(g) of the Act:
Title of Each Class
Common Stock, $.10 Par Value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter periods that 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this form 10-KSB [X]

State issuer's revenues for its most recent fiscal year: $4,697,476

State the aggregate market value of the voting equity held by non-affiliates:

Of the 5,449,578 shares of common stock of the registrant issued and 4,237,578 outstanding shares of common stock of the registrant as of March 11, 2005, 3,867,378 shares are held by non-affiliates. Because of the absence of an

established trading market for the common stock, the registrant is unable to calculate the aggregate market value of the voting stock held by non-affiliates as of a specified date within the past 60 days.

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 - 4,237,578 shares as of March 11, 2005.

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

FORM 10-KSB
For the Fiscal Year Ended December 31, 2004

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PART I

Item 1. Description of Business

First American Capital Corporation (the "Company") was incorporated on July 10, 1996 for the purpose of forming, owning and managing life insurance companies. The Company sold 2,120,000 shares at $.10 per share to its organizing shareholders in August of 1996 for total proceeds of $212,000. Also, in September, 1996, the Company sold 600,000 shares of its common stock for $1.00 per share in a separate private placement. The initial capital was used to fund the Company's efforts to register a $12,500,000 intra-state public offering with the Office of the Kansas Securities Commissioner.

On January 11, 1999, the Company completed the intra-state public stock offering raising approximately $13,750,000 of capital by selling 2,750,000 shares of common stock at $5.00 per share. These funds were used to capitalize the life insurance company, purchase and develop real estate assets and fund operations.

First American Capital Corporation

The primary segment of the Company's operations is life insurance and annuities. Accordingly, a significant portion of revenue will be generated by the Company's wholly owned life insurance subsidiary, First Life America Corporation ("FLAC"). Additional income is provided in the form of investment and rental income. The Company has contracted with FLAC to provide services, which are incident to the operations of FLAC, as discussed below. The Service Agreement between the Company and FLAC ("Service Agreement") was amended and restated effective January 1, 2002.

First Life America Corporation

On October 15, 1997, FLAC received a certificate of authority from the Kansas Insurance Department ("KID") to transact its life insurance and annuity business in the state of Kansas. On November 19, 1998, life insurance operations commenced. Under the provisions of accounting principles generally accepted in the United States of America, FLAC had $6,251,955 of shareholders' equity as of December 31, 2004, and is wholly owned by the Company.

Administration

Under the terms of the Service Agreement, the Company provides personnel, facilities, and services incident to the operations of FLAC. FLAC does not have any employees. Services performed pursuant to the Service Agreement are underwriting, claim processing, accounting, policy administration and data processing and other services necessary for FLAC to operate. The Service 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 accounting principles generally accepted in the United States of America. FLAC bears all of its direct selling costs, which include agent recruiting, training and licensing; agent commissions; any benefits or awards directly for or to agents or management including any life or health insurance to be provided; and any taxes (federal, state or county) directly related to the business of FLAC. Additionally, FLAC is responsible for, among other things, any reinsurance premiums; legal expenses related to settlement of claims; state examination fees; 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.

Actuarial Services

On behalf of FLAC, the Company has retained the services of Miller & Newberg Inc., consulting actuaries located in Olathe, Kansas. Mr. Eric Newberg of Miller & Newberg Inc. has been appointed by the Board of Directors of FLAC to act as its valuation and illustration actuary.

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Products of FLAC

The three primary insurance products marketed by FLAC in fiscal years 2002 through 2004 were as follows:

First American 2000 is a modified payment whole life insurance policy with a flexible premium deferred annuity rider. The policy requires premium payments to be made for a certain number of years after which time the policyholder is entitled to policy benefits without making future payments. The product combines both a ten and twenty payment period based on the issue age of the insured. Issue ages from age 0 (30 days) to 20 and 66 to 80 are ten pay policies and issue ages from 21 to 65 are twenty pay policies. Premium payments are split between life and annuity based on percentages established in the product design. First year premium payments are allocated 100% to life insurance and renewal payments are split 50% to life and 50% to annuity. The product is sold in premium units with the ability to purchase either fractional or multiple units. At the end of the required premium paying period, the policyholder may continue to make full premium payments into the annuity rider to provide for greater annuity accumulations.

Golden Eagle Whole Life (Final Expense) is available on a simplified issue or graded death benefit basis. The simplified issue product is issued from age 50 to 85 with death benefit coverage ranging from a minimum of $2,500 to a maximum of $25,000. The graded death benefit product is issued from age 50 to 80 with death benefit coverage ranging from a minimum of $2,000 to a maximum of $10,000. The policy includes a living benefit rider that pays the actuarial present value of death benefit upon terminal illness or nursing home confinement. Premiums are level for life and vary by risk class, sex and issue age.

First Step is a juvenile term product issued from age 0 (30 days) to age 15. Coverage is sold in units. One unit, consisting of a single premium payment of $100 purchases $5,000 of death benefit coverage, while two units, consisting of a single premium payment of $200 purchases $10,000 of coverage. The product contains a conversion provision allowing it to be converted to a whole life policy prior to age 21.

The following new products are either scheduled for release in the near future or have been released thus far during 2005:

First Whole Life is a permanent whole life insurance product with guaranteed level premiums and death benefits. Issue ages are 0 to 80. Rate classes include preferred non-tobacco, non-tobacco and tobacco. The product is non-participating. Available riders include accidental death, accelerated living benefit, waiver of premium, terminal illness and long-term care.

First Term is a level term life insurance product for issue ages 18 to 60. Term periods are 10, 15, 20 and 30 years. Both fully guaranteed and partially guaranteed premium options are available. For the partially guaranteed option, premiums are level for 5 years on the 10 year term, 10 years on the 15 year term, 13 years on the 20 year term and 17 years on the 30 year term, increasing annually thereafter. Rate classes include non-tobacco, preferred tobacco and tobacco. Available riders include return of premium, accidental death, accelerated living benefit and waiver of premium.

Value Builder is a modified payment whole life insurance policy with a flexible premium deferred annuity rider. The policy requires premium payments to be made for a certain number of years after which time the policyholder is entitled to policy benefits without making future payments. The product combines both a ten and twenty payment period based on the issue age of the insured. Issue ages from

age 0 (30 days) to 20 and 66 to 80 are ten pay policies and issue ages from 21 to 65 are twenty pay policies. Premium payments are split between life and annuity based on percentages established in the product design. First year premium payments are allocated 100% to life insurance and renewal payments are split 50% to life and 50% to annuity. The product is being sold in premium units with the ability to purchase either fractional or multiple units. At the end of the required premium paying period, the policyholder may continue to make full premium payments into the annuity rider to provide for greater annuity accumulations.

First FLEX I is a flexible premium deferred annuity for ages 0 to 90. The initial interest rate is guaranteed for one contract year with a minimum guaranteed interest rate of 3%. The surrender charge period is seven years and up to 15% of the account value can be withdrawn each year without incurring a surrender charge. If the annuitant becomes confined to a nursing home, the surrender charge may be waived up to a certain limit. The minimum deposit is $100.

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First MAX I is a single premium deferred annuity for ages 0 to 90. The initial interest rate is guaranteed for one contract year with a minimum guaranteed interest rate of 3%. The surrender charge period is five years and up to 15% of the account value can be withdrawn each year without incurring a surrender charge. If the annuitant becomes confined to a nursing home, the surrender charge may be waived up to a certain limit. The minimum deposit is $500.

First MAX III is a single premium deferred annuity for ages 0 to 90. The initial interest rate is guaranteed for three contract years with a minimum guaranteed interest rate of 3%. The surrender charge period is three years. If the annuitant becomes confined to a nursing home, the surrender charge may be waived up to a certain limit. The minimum deposit is $500.

Easy Pack contains short form applications for simplified underwriting and quick issue. Products included in the Easy Pack are First Whole Life, First Term, First Step, Golden Eagle Final Expense and First Flex I, First Max I and First Max III. The Easy Pack is designed for the agent and consumer to receive quick underwriting decisions on the small face policies.

Product Marketing and Sales

The Company's marketing strategy is to work with FLAC to provide life insurance and annuity products that are beneficial to the consumer and profitable for the Company and its shareholders. As such, FLAC is continually seeking new markets for its products. FLAC sells its products through independent agents. The independent agents receive commissions from FLAC based on premiums collected on the products sold by the independent agents. FLAC contracts the independent agents directly or through independent marketing organizations, referred to as IMOs. IMOs generally are organizations that align multiple independent agents with specific insurers and products. The IMOs receive a portion of the overall commissions paid by FLAC on products sold by the agents. The IMOs recruit, train, contract and provide other support functions to the independent agents.

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

Insurance Inforce

The following table provides certain information about FLAC's volume of life insurance coverage inforce for each of the last three years:

	(shown in thousands)		
	2004	2003	2002
Amounts of Insurance (1)			
Beginning of year	$163,424	$154,577	$112,302
Issued during year	16,854	32,877	54,827
Reinsurance assumed	3,169	6,360	5,821
Revived during year	694	427	1,512
Lapse, surrender and decreased	(24,018)	(30,817)	(19,885)
In-force end of year	$160,123	$163,424	$154,577

(1) Excludes accidental death benefits (shown in thousands) of $35,695, $36,920, and $36,508 in 2004, 2003, and 2002, respectively.

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The following table provides certain information about FLAC's policy count for each of the last three years:

	(Number of Policies)		
	2004	2003	2002
Beginning of year	6,582	4,927	2,933
Issued during year	1,676	2,239	2,210
Reinsurance assumed	726	--	--
Revived during year	50	27	25
Lapse, surrender and decreased	(716)	(611)	(241)
In-force end of year	8,318	6,582	4,927

As is evidenced by the tables above, the average face amount per policy issued has decreased from approximately $25,000 in 2002 to approximately $15,000 and $10,000 in 2003 and 2004, respectively. The decrease in average face amount issued is directly related to increased focus being placed on production of the Company's Final Expense product over the past three years. The Final Expense product has a maximum face amount of $25,000, a level significantly less than the other products historically marketed by the Company.

Reinsurance

In order to reduce the financial exposure to adverse underwriting results, insurance companies generally reinsure a portion of their risks with other insurance companies. FLAC has entered into agreements with Generali USA Life Reassurance Company ("Generali") of Kansas City, Missouri, as well as Optimum Re Insurance Company ("Optimum Re") of Dallas, Texas, to reinsure portions of the

life insurance risks it underwrites. Pursuant to the terms of the reinsurance agreements, FLAC retains a maximum coverage exposure of $50,000 on any one insured. In the event that the reinsurance companies are unable to fulfill their obligations under the reinsurance agreements, FLAC remains primarily liable for the entire amount at risk. According to the reinsurance agreements, there are generally no premiums due on first year business.

FLAC is party to an Automatic Retrocession Pool Agreement (the "Reinsurance Pool") with Optimum Re, Catholic Order of Foresters, American Home Life Insurance Company and Woodmen of the World. The agreement provides for automatic retrocession of coverage in excess of Optimum Re's retention on business ceded to Optimum Re by the other parties to the Reinsurance Pool. FLAC's maximum exposure on any one insured under the Reinsurance Pool is $50,000.

Underwriting

FLAC follows underwriting procedures designed to assess and quantify insurance risks before issuing life insurance policies. Such procedures require medical examinations (including blood tests, where permitted) of applicants for policies of life insurance in excess of certain policy limits. These requirements are graduated according to the applicant's age and vary by policy type. The life insurance subsidiary also relies upon medical records and upon each applicant's written application for insurance, which is generally prepared under the supervision of a trained agent.

Investments

The Kansas Insurance Code restricts the investments of insurance companies by the type of investment, the amount that an insurance company may invest in one type of investment, and the amount that an insurance company may invest in the securities of any one issuer. The restrictions of the Kansas Insurance Code are not expected to have a material effect on the investment return of FLAC. The Company is not subject to the limitations, which restrict the investments made by FLAC. Currently, investments are held in both short-term, highly liquid securities and long-term, higher yield securities. The Company implemented a new investment strategy in 2004. 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.

Competition

The life insurance industry is extremely competitive. There are a large number of insurance companies that are substantially larger, have greater financial resources, offer more diversified product lines and have larger selling organizations and customer bases than FLAC. Competition also is encountered from the expanding number of banks and other financial intermediaries that offer competing products. FLAC must compete with other insurers to attract and retain qualified agents to market FLAC's products.

Governmental Regulation

FLAC is subject to regulation and supervision by the KID. The insurance laws of Kansas give KID broad regulatory authority, including powers to: (i) grant and revoke licenses to transact business; (ii) regulate and supervise trade practices and market conduct; (iii) establish guaranty associations; (iv) license agents; (v) approve policy forms; (vi) approve premium rates for some lines of business; (vii) establish reserve requirements; (viii) prescribe the form and content of required financial statements and reports; (ix) determine the reasonableness and adequacy of statutory capital and surplus; and (x)

regulate the type and amount of permitted investments. Without limiting the foregoing, the effect of the regulatory powers of the KID over FLAC may restrict the ability of FLAC to dividend or otherwise transfer funds from FLAC to the Company even if FLAC's operations are profitable and creating positive cash flow, restrict the ability of FLAC to raise capital other than by contributions from the Company, and require that the Company contribute additional capital to FLAC.

Kansas has enacted legislation which regulates insurance holding company systems, including acquisitions, extraordinary dividends, the terms of affiliate transactions, and other related matters. Currently, the Company and FLAC have registered as a holding company system pursuant to the laws of the state of Kansas.

Federal Income Taxation

FLAC is taxed under the life insurance company provisions of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, a life insurance company's taxable income incorporates all income, including life and health premiums, investment income, and certain decreases in reserves. The Code currently establishes a maximum corporate tax rate of 35%. The Code currently requires capitalization and amortization over a five year period of certain policy acquisition costs incurred in connection with the sale of certain insurance products. These provisions apply to life and annuity business. Certain proposals to make additional changes in the federal income tax laws, including increasing marginal tax rates, and regulations affecting insurance companies or insurance products, continue to be considered at various times in the United States Congress and by the Internal Revenue Service. The Company currently cannot predict whether any additional changes will be adopted in the foreseeable future or, if adopted, whether such measures will have a material effect on its operations.

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Commencing with the 2003 tax year, FLAC filed a consolidated income tax return with the Company. In certain consolidated return years, the separate tax liability of either FLAC or the Company may be reduced through the utilization of net operating losses of the other company comprising the consolidated group. In addition, the taxes payable by the consolidated group as a whole may be reduced by tax credits generated or earned by one company of the consolidated group, which are in effect used to reduce the separate tax liability of the other company. The tax savings attributable to the use of such tax attributes will inure generally to the benefit of the company of the consolidated group that earned or generated the tax attribute in question. Members of the consolidated group will reimburse one another for the value of the consolidated tax attributes utilized in each consolidated return year.

Financial Information Relating to Industry Segments

The Company's operations are categorized in two segments: Life and annuity insurance operations (conducted by FLAC and by the Company pursuant to the Services Agreement) and Corporate Operations (managing and leasing the Company's office building). Financial information related to these two segments of the Company's business is presented below. All sales of life insurance by FLAC are to unaffiliated customers.

	2004	2003	2002

Revenues:			
Life and annuity insurance operations	$ 4,293,633	$ 3,988,400	$ 3,712,523
Corporate operations	403,843	325,569	446,625
Total	$ 4,697,476	$ 4,313,969	$ 4,159,148
Income (loss) before income taxes:			
Life and annuity insurance operations	$ 464,114	$ 368,682	$ 480,628
Corporate operations	(761,430)	(1,095,168)	(625,386)
Total	$ (297,316)	$ (726,486)	$ (144,758)
Depreciation and amortization expense:			
Life and annuity insurance operations	$ 769,611	$ 629,068	$ 423,210
Corporate operations	132,902	124,093	134,999
Total	$ 902,513	$ 753,161	$ 558,209
Assets:			
Life and annuity insurance operations	$18,305,111	$15,053,265	$12,090,507
Corporate operations	4,649,885	5,625,835	6,656,009
Total	$22,954,996	$20,679,100	$18,746,516

Employees

As of December 31, 2004, the Company had 15 full time and no part time employees.

Item 2. Description of Property

The Company owns approximately six and one-half acres of land located in Topeka, Kansas. A 20,000 square foot office building has been constructed on approximately one-half of this land. The remaining land, including improvement costs, is classified as real estate held for investment. The Company does not intend to make any improvements, develop or renovate the property or building. The Company occupies approximately 7,500 square feet of the building. The remaining 12,500 square feet is leased. Approximately 10,000 square feet is leased to the United States Department of Agriculture ("USDA") under a 10 year inclusive non cancelable lease that commenced on July 1, 2001 and will end on June 30, 2011. The USDA may terminate this lease after 5 years, on or after June 30, 2006 upon 90 days notification in writing to the Company. The average annual rental of this lease is $18.31 per square foot or $183,116 per year. The remaining 2,500 square feet is currently available for lease. The occupancy rate based on the total square feet available for lease in 2004 was 88%. Management believes that insurance coverage on the building is adequate. The building is depreciated over 39 years using the straight-line method for book and tax purposes. The annual taxes on the building are $71,737 or an assessed rate of 25%. The annual taxes on the land are $7,707 or an assessed rate of 12%.

The Company has granted security interests in its commercial real estate and office building to secure a loan from Western National Bank of Lenexa, Kansas, in the amount of approximately $1,800,000 on a first priority basis and a loan from Brooke Credit Corp. in the amount of approximately $570,000 on a second

priority basis. See Item 12 Certain Relationships and Related Party Transactions.

Item 3. Legal Proceedings

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. The petition 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 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.

On December 12, 2003, Meyer filed an Answer and Counterclaim against the Company asserting claims for defamation and breach of employment agreement. Meyer seeks damages in excess of $75,000 plus interest and costs on his defamation claims. 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.

The Company denies Meyer's allegations and will vigorously defend against them as well as pursue its claims against Meyer. The trial is currently in the discovery stage. No trial date has been set.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this Form 10-KSB to a vote of the Company's security holders, through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

(a.) Market Information

The Company's common stock became tradeable on October 11, 1999. The common stock is not listed on any stock exchange. Trading of the Company's common stock in the over-the-counter market is limited and sporadic and an established public market does not exist.

(b.) Holders

As of March 11, 2005, there are approximately 4,948 shareholders of record of the Company's outstanding common stock.

(c.) Dividends

The Company has not paid any cash dividends since inception (July 10, 1996).

Management anticipates that for the foreseeable future any and all earnings will be retained to fund the growth of FLAC's business and for other working capital purposes and that as a result no dividends will be paid on the Company's stock. As noted above, the regulatory requirements of the KID may practically restrict the ability of the Company to transfer any operating profits produced by FLAC's insurance operations to the Company for use in paying dividends on the Company's stock.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto, beginning on page F-1 in this report.

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Critical Accounting Policies and Estimates

The accounting policies below have been identified as critical to the understanding of the results of operations and financial position. The application of these critical accounting policies in preparing the financial statements requires management to use significant judgments and estimates concerning future results or other developments, including the likelihood, timing or amount of one or more future transactions. Actual results may differ from these estimates under different assumptions or conditions. On an ongoing basis, estimates, assumptions and judgments are evaluated based on historical experience and various other information believed to be reasonable under the circumstances. For a detailed discussion of other significant accounting policies, see Note 2 - Significant Accounting Policies in the Notes to Consolidated Financial Statements.

Investments

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

Deferred Policy Acquisition Costs

Deferred policy acquisition costs, principally agent commissions and other selling, selection and issue costs, which vary with and are directly related to the production of new business, are capitalized as incurred. These deferred costs are then amortized in proportion to future premium revenues or the expected future profits of the business, depending upon the type of product. Profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. These assumptions involve judgment and are compared to actual experience on an ongoing basis.

Future Policy Benefits

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

Future Annuity Benefits

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

Premiums

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

Income Taxes

Deferred income taxes are recorded on the differences between the tax bases of assets and liabilities and the amounts at which they are reported in the consolidated financial statements. Recorded amounts are adjusted to reflect changes in income tax rates and other tax law provisions as they become enacted.

Reinsurance

Reinsurance is one of the tools that the Company uses to accomplish its business objectives. A variety of reinsurance vehicles are currently in use. Reinsurance supports a multitude of corporate objectives including managing statutory capital, reducing volatility and reducing surplus strain. At the customer level it increases the Company's capacity, provides access to additional underwriting expertise, and generally makes it possible for the Company to offer products at competitive levels that the Company could not otherwise bring to market without reinsurance support.

Financial Condition

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

Total assets increased from $20,679,100 at December 31, 2003 to $22,954,996 at December 31, 2004. The increase in total assets is primarily attributable to the investment of premiums received during the year. Given the long-term nature of the policy and contract liabilities associated with these premiums, management is able to invest these premiums for a period of time until a payout of policy benefits is required.

The Company's available-for-sale fixed maturity securities had a fair value of $13,479,388 and $12,032,106 at December 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.

Credit risk is limited by emphasizing investment grade securities and by diversifying the investment portfolio among various investment instruments. Credit risk is further minimized by investing in certificates of deposit. Certain certificates of deposit and cash balances exceed the maximum insurance protection of $100,000 provided by the Federal Deposit Insurance Corporation ("FDIC"). However, both certificates of deposit balances and cash balances exceeding this maximum are protected through additional insurance. As a result, management believes that significant concentrations of credit risk do not exist.

Investments in equity securities increased from $41,800 at December 31, 2003 to $236,342 at December 31, 2004 due primarily to the purchases of equity securities of $193,600 in 2004.

Short-term investments decreased $460,593 from $460,593 at December 31, 2003 to $0 at December 31, 2004. The decrease is attributable to bonds maturing during the year ended December 31, 2004, and the proceeds being used to purchase available-for-sale fixed maturity securities and other investments.

Mortgage loans on real estate increased from $0 at December 31, 2003 to $349,542 at December 31, 2004. The increase is attributable to the purchase of a mortgage loan on commercial property. The Company may purchase more of these types of investments in the future in limited quantities in an effort to enhance the Company's investment portfolio yield.

Other investments increased from $0 at December 31, 2003 to $206,306 at December 31, 2004. The increase is attributable to the purchase of investments in lottery prize cash flows during the year ended December 31, 2004. These other investments involve purchasing assignments of the future payment rights from the lottery winners at a discounted price sufficient to meet the Company's yield requirements. Payments on these other investments will be made by state run lotteries and as such are backed by the general credit of the respective state. The Company may purchase more of these types of investments in the future in

limited quantities in an effort to enhance the Company's investment portfolio yield.

Cash and cash equivalents increased to $527,028 at December 31, 2004 from $397,789 at December 31, 2003. Refer to the statement of cash flows for sources and uses of cash.

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Investments in related parties decreased from $65,200 at December 31, 2003 to $0 at December 31, 2004. 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. 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 year. Following the purchase of the remaining interest, FCS was dissolved with all assets being transferred to the Company.

Accounts receivable decreased 13% from $296,366 at December 31, 2003 to $258,194 at December 31, 2004. The decrease is primarily due to a $27,469 decrease in due premiums and a $21,089 decrease in income tax recoverable offset by an increase of $10,281 in amounts due from agents. An allowance for uncollectible items is not deemed necessary with respect to these receivables.

Deferred policy acquisition costs, net of amortization, increased 13% from $4,010,959 at December 31, 2003 to $4,516,994 at December 31, 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. Based on the results of the aforementioned procedures performed by management and the results of a formal recoverability study completed by the Company's external consulting actuary, no impairments have been recorded against the balance of deferred acquisition costs.

Property and equipment net of accumulated depreciation decreased 2% from $2,836,814 at December 31, 2003 to $2,775,187 at December 31, 2004. The decrease is attributable to the capitalization of assets of $71,275 offset by depreciation expense of $132,902.

Liabilities increased to $13,988,309 at December 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 $1,020,813 or 33% from December 31, 2003 to December 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 $1,906,660 or 39% from December 31, 2003 to December 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.

Commission, salaries, wages and benefit payables increased $50,929 from $53,015 at December 31, 2003 to $103,944 at December 31, 2004. The increase is primarily attributable to timing factors associated with the payment of incentive compensation and payroll.

Deferred federal income taxes payable decreased to $603,489 at December 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 available-for-sale 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 December 31, 2004.

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Results of Operations

Significant components of revenues include life insurance premiums, net of reinsurance, and net investment income. The following table provides information concerning net premium income for the years ended December 31, 2004, 2003, and 2002:

	2004	2003	2002
Whole life insurance:			
First year	$ 899,629	$1,381,964	$1,815,415
Renewal	2,701,813	2,247,022	1,595,159
Term insurance:			
First year	1,099	1,352	4,524
Renewal	20,296	17,724	15,729
Single premium	17,720	9,800	10,580
Gross premium income	3,640,557	3,657,862	3,441,407
Reinsurance premiums assumed	10,816	5,943	1,077
Reinsurance premiums ceded	(117,761)	(126,531)	(111,624)
Net premium income	$3,533,612	$3,537,274	$3,330,860

Net premium income was essentially the same in 2004 as 2003 and increased $206,414 or 6% from 2002 to 2003. Total first year whole life premium decreased $482,335 or 35% from 2003 to 2004 and $433,451 or 24% from 2002 to 2003. The significant negative trend in first year whole life premium began in 2003 as a result of the disruptive effect that the Company's 2003 proxy contest had on its customers, shareholders and its marketing agents used to market the Company's FA2000 product. The downward trend continued in 2004 as a result of the Company's shift in marketing emphasis away from its FA2000 product. The FA2000 product was designed primarily for the Company's shareholders. Now that all

shareholders have been contacted, emphasis is shifting to other products. In addition, the interest rate credited on the FA2000 annuity rider determines whether it remains competitive in the market. In the lower interest rate environment of the last few years, the product was competitive because the Company paid an above average interest rate on the annuity rider.

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

Total renewal year whole life premiums increased $454,791 or 20% from 2003 to 2004 and $651,863 or 41% from 2002 to 2003. Renewal premiums reflect the premium collected in the current year for those policies that have surpassed their first anniversary. Renewal premiums will continue to increase unless premiums lost from surrenders, lapses, settlement options or application of the non-forfeiture options, exceed prior year's first year premium, other than single premium.

Net investment income decreased $40,932 or 7% from 2003 to 2004 and $31,012 or 5% from 2002 to 2003. 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 matured, 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 resulted in the decrease in net investment income for the year ended December 31, 2003.

Net realized investment gain increased $458,967 from 2003 to 2004. The increase is attributable to the sale of a significant portion of the Company's bond portfolio during 2004.

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Rental income decreased from $213,457 in 2003 to $182,553 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 $4,994,792, $5,040,455 and $4,303,906 for the years ended December 31, 2004, 2003 and 2002, respectively. Included in total benefits and expenses were policy reserve increases of $1,020,812, $819,632 and $786,064 for the years ended December 31, 2004, 2003 and 2002, 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.

Interest credited on annuities and premium deposits totaled $344,918, $304,283 and $171,866 for the years ended December 31, 2004, 2003 and 2002, respectively. The increases during 2004 and 2003 of $40,635 and $132,417, respectively are

primarily a result of the increase in annuity fund balances. Both interest credited on annuities and premium deposits have increased as a result of the increase in the number of policies inforce (8,318, 6,582 and 4,927 in 2004, 2003 and 2002, respectively). The average interest credit rate on annuities and premium deposits has decreased from 7.3% and 7.4% during 2002 and 2003, respectively, to 5.7% during 2004. The decrease is attributable to management's attempt to more effectively manage the interest spread between the rate the Company earns on its investment portfolio and the rate being credited to policyholder accounts.

Death claims increased $37,352 from 2003 to 2004 and $165,622 from 2002 to 2003. The increase is attributable to the increase in the number of policies inforce and the continued maturation of those policies. Mortality experienced by the Company to date is within management's expectations.

Commission expense totaled $1,059,798, $1,235,074 and $1,336,805 for the years ended December 31, 2004, 2003 and 2002, 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 during each respective period.

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 years ended December 31, 2004, 2003 and 2002, $1,275,646, $1,453,440 and $1,680,977, respectively, of these costs had been capitalized as deferred policy acquisition costs. The related amortization for the same periods totaled $769,611, $629,068 and $423,210, respectively.

Salaries, wages and employee benefits decreased from $1,352,175 in 2002 to $1,150,230 in 2003 and $1,119,185 in 2004. The decrease during 2004 and 2003 is primarily attributable to the decrease in employee headcount during the years in comparison to the same period in 2002. The decreases included a $29,222 and $118,688 decrease in incentive compensation for 2004 and 2003, respectively, resulting from the Company opting not to renew the employment contracts of prior executive management.

Administrative fees - related party were paid to FAC for underwriting, accounting and other policy services during 2002. There were no administrative fees - related party in 2003 and 2004. During 2002 these fees totaled $288,936 and were calculated based on a percentage of FLAC's premium income collected.

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Other operating costs and expenses totaled $1,359,969, $1,845,155 and $1,394,120 for the years ended December 31, 2004, 2003 and 2002, respectively. The decrease of $485,186 during 2004 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 $510,318 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 $135,609 of professional service fees incurred in 2004 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. On March 2, 2005, the Company repurchased 450,500 shares of the Company's common stock from this stockholder. See Item 12 Certain Relationships and Related Transactions.

As a result of the items noted above net loss decreased $253,064 or 52% to $232,936 from $486,000 for the years ended December 31, 2004 and 2003, respectively and decreased $61,226 or 11% to $486,000 from $547,226 for the years ended December 31, 2003 and 2002, respectively.

Liquidity and Capital Resources

During the years ended December 31, 2004, 2003, and 2002, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity to purchase various investments. Net cash provided by (used in) operating activities during the years ended December 31, 2004, 2003 and 2002 totaled $404,894, ($179,098) and ($280,699), respectively. The increase in net cash provided by operations in 2004 as compared to both 2003 and 2002 is primarily a result of the reductions in operating expenses, salaries and wages, and administrative fees during the applicable years, as noted above.

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.

As of December 31, 2004, the Company had consolidated cash reserves and liquid investments of approximately $14,200,958, as compared with $12,890,488 at the end of 2003 and $11,577,392 at the end of 2002. Of these amounts, cash reserves and liquid investments at FLAC as of these dates were approximately $12,812,107, $10,541,139, and $8,394,494, respectively. However, due to insurance regulatory restrictions, as noted above, these amounts cannot necessarily be used to fund the cash needs of the parent company on a stand-alone basis. As of these dates, cash reserves and liquid investments at the parent company level were approximately $1,388,851, $2,349,349 and $3,182,898 respectively.

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Management believes that these funds provide sufficient liquidity to fund the basic operating needs at both the parent company and the FLAC levels for the foreseeable future. However, if extraordinary legal or other expenses (such as those incurred in 2003 and 2004 with respect to the proxy contest, Meyer litigation, and special committee activities described above) are unexpectedly incurred at the parent company level or if operating losses continue unabated at 2002 through 2004 levels, then the sufficiency of the parent company's operating cash position could be jeopardized. In addition, although there can be no

assurance that extraordinary corporate activities will not continue, management believes that steps recently taken by the Company reduce the likelihood that it will continue to incur extraordinary expenses such as those incurred in 2003 and 2004. See Item 12 Certain Relationships and Related Party Transactions.

In 2004, management adopted a five-year business development plan intended to expand the Company's product lines and marketing efforts. However, the Company's efforts to implement its new business plan and grow its business and policy base through the implementation of the new product lines and marketing efforts would be significantly enhanced if additional capital could be infused into FLAC's insurance operations. Further, the parent company's capital position would be strengthened against the risks noted in the preceding paragraph if more capital were available at the parent company level. Therefore, management of the Company intends to explore opportunities to provide this additional capital through the sale of new equity securities or debt securities or through borrowed funds, although there is no assurance that these efforts will be successful.

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 Item 3 Legal Proceedings 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.

Item 7. Financial Statements

The consolidated financial statements and related notes are included in this report beginning on page F-1.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On April 15, 2004, the Company discharged Kerber, Eck & Braeckel LLP ("KE&B") as its independent accountants. The Company's Audit Committee participated in and approved the decision to change independent accountants.

The reports of KE&B on the financial statements for the past two fiscal years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

In connection with its audits for the two most recent fiscal years and through April 15, 2004, there were no disagreements with KE&B on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of KE&B would have caused them to make reference thereto in their report on the financial statements for such years.

During the two most recent fiscal years and through April 15, 2004, there were no reportable events (as defined in Regulation S-B Item 304(a)(1)(iv)(B)).

The Company requested that KE&B furnish it with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of such letter, dated April 19, 2004, was filed as Exhibit 99.1 to the Company's Form 8-K filed April 21, 2004.

The Company engaged BKD, LLP ("BKD") as its new independent accountants as of April 15, 2004. During the two most recent fiscal years and through April 15, 2004, the Company did not consult with BKD regarding either (i) the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on the Company's financial statements and either written or oral advice was provided that BKD concluded was an important factor considered by the Company in reaching a decision as to the

accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv)(A) of Regulation S-B and the related instructions to Item 304 of Regulation S-B, or a reportable event, as that term is defined in Item 304(a)(1)(iv)(B) of Regulation S-B.

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Item 8a. Controls and Procedures

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

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

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16 (a) of the Exchange Act

The current Executive Officers and Directors of the Company are as follows:

Name	Age	Position
Harland E. Priddle	74	Chairman of the Board, Secretary and Director
John F. Van Engelen	52	President, CEO and Director
Patrick A. Tilghman	31	Treasurer and CFO
Thomas C. Kimery	36	Vice President
Paul E. Burke Jr.	71	Director
Edward C. Carter	62	Director
Thomas M. Fogt	59	Director
Kenneth L. Frahm	58	Director
Stephen J. Irsik Jr.	58	Director
John G. Montgomery	65	Director
Gary E. Yager	50	Director

The Directors serve until their successors are elected and qualified. Directors are elected annually by the stockholders. The Executive Officers serve at the discretion of the Board of Directors. The President, Secretary and Treasurer are elected at the annual meeting of the Board, while the other officers are elected by the Board from time to time as the Board deems advisable. The Executive Officers and Directors also hold the same positions for the Company's subsidiaries. The following is a brief description of the previous business

background of the Executive Officers and Directors:

Harland E. Priddle: Mr. Priddle has been a Director of the Company since its inception and has been the Chairman of the Board since November 15, 2002. Mr. Priddle is President of Priddle & Associates, a business consulting firm specializing in business and economic development consulting. Mr. Priddle is the former Kansas Secretary of Agriculture (1982-1986) and served as the first Kansas Secretary of Commerce (1987-1991). As the first Secretary of Commerce, he was directly involved in the creation of such programs as Kansas, Inc., Kansas Technology Enterprise Corporation, Kansas Development Finance Authority and the Kansas Venture Capital Corp. He was candidate for Lt. Governor of Kansas in 1986 and 1990. He was the Deputy Director of the White House Communications Agency for the President for a period of four years (1970-1974) where he provided support and accompanied the President on approximately 200 Presidential trips. Mr. Priddle was the Vice President for Marketing and Customer Services for the Hutchinson National Bank from 1978 to 1981. He also has served as Assistant Manager of the Kansas State Fair (1974-1978) and Executive Director of the Kansas Wildscape Foundation (1999-2002), a not for profit foundation dedicated to creating outdoor opportunities in Kansas. He retired from the United States Air Force in 1974, after 22 years, with the rank of Colonel. While in the Air Force, he received 17 military decorations including the Bronze Star and two Legions of Merit. He is a veteran of both Korea and Vietnam Campaigns. He received a BS in Agriculture from Kansas State University in 1952.

John F. Van Engelen: Mr. Van Engelen was named President and CEO of the Company on February 16, 2004. Mr. Van Engelen previously was the President of Western United Life. Mr. Van Engelen joined Western United Life in 1984 as its underwriting manager, and shortly thereafter he was appointed Vice President--Underwriting. From 1987 to 1994, he was Vice President--Sales and a Regional Sales Manager. During 1994, he was appointed President of Western United Life. Prior to joining Western United Life, Mr. Van Engelen had worked in the insurance industry and in corporate and public accounting. He holds the following certifications: CPA, CFP, CLU, ChFC, and FLMI. He is also a member of the American Institute of Certified Public Accountants, Society of Financial Service Professionals, and a board member of the New Mexico Life and Health Guaranty Fund. Mr. Van Engelen holds a Bachelor of Business Administration in Accounting from Boise State University.

Patrick A. Tilghman: Mr. Tilghman joined the Company in July, 2001 as Controller. He was appointed as Treasurer and Chief Financial Officer effective July 6, 2004. He is responsible for the oversight of the accounting function with specific emphasis being placed in the areas of financial reporting, internal financial analysis, forecasting and cash management. Prior to joining the Company, Mr. Tilghman worked for PricewaterhouseCoopers LLP in their audit division servicing clients primarily in the insurance, health care and entertainment industries. Mr. Tilghman received his Bachelor of Business Administration and Accounting with Honors from the University of Kansas. He holds the designation of CPA and is a member of the American Institute of Certified Public Accountants.

Thomas C. Kimery: Mr. Kimery joined the Company in June, 2000, in his present role and was appointed as a corporate officer effective July 6, 2004. He is responsible for new business and underwriting, policyowner service, claims, product creation and extensive administration duties. Prior to joining the Company, Mr. Kimery worked for Transamerica Life Companies in Kansas City, Missouri from 1994 to 2000, with roles in underwriting and claims. Mr. Kimery has an undergraduate degree in History from the University of Kansas and a M.B.A. from Baker University. He also holds the FLMI, ACS and ARA designations.

Paul E. Burke, Jr.: Mr. Burke, who has been a Director of the Company since its inception, is the President of Issues Management Group, Inc., a public relations and governmental affairs consulting company. Mr. Burke served as a member of the Kansas State Senate from 1975 to January 1997 and served as the President of the Senate from 1989 until his retirement in 1997. During his tenure in the Kansas Senate, Mr. Burke served as Chairman of the Organization, Calendar and Rules, Legislative Coordinating Council and Interstate Cooperation Committees. Mr. Burke was a majority leader of the Senate from 1985 to 1988. Mr. Burke has served in numerous national, state and local leadership positions including past positions as a member of the President's Advisory Commission on Intergovernmental Relations. He is also the former owner of WEBBCO, Inc., an industrial engineering and equipment company. Mr. Burke received his Bachelor of Science degree in business from the University of Kansas in 1956.

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Edward C. Carter: Mr. Carter, who has been a Director of the Company since its inception, is an entrepreneur and real estate developer. Mr. Carter is a retired senior executive (1963-1992) with the Kansas Southwestern Bell Telephone Company. He served in numerous senior executive positions including Division Manager Regulatory Relations, Regional Vice President Southwestern Bell Telecom, a start up company serving a four state area, and Kansas Director of Marketing and District Manager Residence Service Centers. Mr. Carter served as City Commissioner and Mayor of Lawrence, Kansas from 1977 to 1981. He was a director and President of the Lawrence, Kansas Rotary Club, past Executive Board Member of the Kansas State Chamber of Commerce, past Chairman of the Douglas County United Fund and Director and President of Junior Achievement. He is a Co-Recipient of the Outstanding Kansan Award for Civic Service and received the Lifetime Meritorious Achievement Award from Pittsburgh State University in 2001. Mr. Carter was a member and All Conference guard on the Pittsburgh State University National Championship Football Team. He received his B.A. in Business Administration from Pittsburgh State University in 1963.

Thomas M. Fogt: Mr. Fogt has been a director of the Company since March 31, 2003. Mr. Fogt has over twenty-five years of experience in insurance, financial management, accounting, corporate development and business planning. He has a master's degree from Xavier University in business and is a member of the American Institute of Certified Public Accountants. Mr. Fogt has served as Executive Vice President for AmerUs Annuity Group Co., a subsidiary of AmerUs Group, since 1994 with responsibilities for finance and accounting, as well as mergers and acquisitions. Prior to joining AmerUs, Mr. Fogt was a partner with the accounting firm of Deloitte & Touche.

Kenneth L. Frahm: Mr. Frahm, who has been a Director of the Company since its inception, has been a self-employed farmer since 1975. He currently owns 1,200 acres of irrigated corn and dryland wheat production land and is a member of a family partnership, which produces over 500,000 bushels of corn and wheat annually on 6,500 acres of western Kansas farm land. Mr. Frahm's operating entities include Allied Family Farm and Grain Management, Inc. He is past President of the Kansas Development Finance Authority. He is past Chairman of 21st Century Grain Processing Cooperative, and a former member of the Board of Directors of Bank IV Community Bank in Colby. In addition, Mr. Frahm is a member of the Kansas Farm Service Agency State Committee appointed by US Agriculture Secretary Ann Veneman. He is a member of the Agricultural Use Value Committee of the Kansas Department of Revenue, an Executive Committee member of the Fort Hays State University Endowment Association, a past member of the Board of Directors of the Kansas Area United Methodist Foundation and Chairman of its Investment Committee, Past President and Paul Harris Fellow of Rotary, a member of the Kansas Farm Bureau, Kansas Livestock Association, Kansas Corn Growers Association, Kansas Association of Wheat Growers and serves on the Boards of Directors of the Ogallala Aquifer Institute and the Kansas Water Congress. Mr.

Frahm is married to Sheila Frahm, a former Kansas United States Senator and has three daughters. Mr. Frahm received his B.A. in Economics in 1968 from Fort Hays Kansas State College and his M.B.A. in Finance in 1969 from the University of Texas at Austin.

Stephen J. Irsik Jr.: Mr. Irsik, who has been a Director of the Company since its inception, is one of the owners of a multi faceted agri-business centered in western Kansas. The business deals with identity preserved grain production, angus beef and the dairy industry. Mr. Irsik is one of the owners of Irsik & Doll Company, a grain storage, merchandising and full feeding cattle operation with facilities across the State of Kansas. Mr. Irsik is serving his 16th year on the Gray County Commission. He currently serves on the 21 Century Alliance Board, 21Century Grain Processing board and Home National Bank Board of Garden City, Kansas. Mr. Irsik has served as a past Board member of the Southwest Kansas Irrigation Association, Upper Ark Basin Advisory committee and Ground Water Management District #3. He is a graduate of Kansas State University and a veteran of the United States Air Force.

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John G. Montgomery: Mr. Montgomery, who has been a Director of the Company since its inception, is the President of Montgomery Communications, Inc. of Junction City, Kansas. He is a newspaper publisher and TV station owner. He is also President of the Junction City Housing and Development Corporation. From 1964 to 1973 he was the Assistant to the President at the San Francisco Newspaper Printing Company. Mr. Montgomery is a member of the InterAmerican Press Association, Inland Daily Press Association and the Kansas Press Association. He was Civilian Aid to the Secretary of the Army of Kansas from 1979-1981 and has again served in that role since 1995. He has extensive state government service including Past Chairman of the Kansas Board of Regents, Past member of the Washburn University Board of Regents, and 1986 Democratic nominee for Lieutenant Governor. His considerable civic involvement, in part, includes being past President of the Junction City Chamber of Commerce, Director and past President of the United Way, past Board member of the Boy Scouts of America, Coronado Council, past Director of the armed service YMCA, Trustee of the William Allen White Foundation, Co-chair of Economic Lifelines, Board member of Kansas Wildscape and the Kansas 4-H and a member of the Rotary Club. Mr. Montgomery has received the 1975 Jaycees Outstanding Young Man of Kansas Award, 1975 Junction City Jaycees Distinguished Service Award and the Department of the Army, Patriotic Civilian Service Award. He graduated from the Philips Academy, Andover, Massachusetts, in 1958, Yale University in 1962, receiving a Bachelor of Arts Degree, and from Stanford University in 1964, where he received his MBA Degree.

Gary E. Yager: Mr. Yager, who has been a Director of the Company since its inception, became the Vice Chairman of Western National Bank in September of 2002. From December 1995 to September of 2002 Mr. Yager was the Executive Vice President and Chief Executive Officer and Senior Lender of the Columbian Bank of Topeka, Kansas. From October 1986 to December 1995, Mr. Yager served as either the Vice President and Branch Manager or the Vice President of Commercial Loans for the Commerce Bank and Trust of Topeka, Kansas. From 1976 to 1986, he served in various management positions with Bank IV of Topeka including Assistant Vice-President of Correspondent Banking and Branch Manager. Mr. Yager is currently a member of the Topeka Housing Authority, Topeka Chamber of Commerce, Art Council of Topeka, the Washburn University Ichabod Club and the Washburn University Moore Bowl Renovation Committee. Additionally, he currently serves as President of Downtown Topeka, Inc. and as Chairman of the Business Improvement District of Topeka. He is a former member of the Board of Directors of the Topeka Family Service and Guidance Center and former advisor of Junior Achievement. He is a past member of the Topeka Active 20-30 Club, where he served in numerous leadership roles including President and Treasurer. Mr. Yager

received his BA degree in Business Administration from Washburn University of Topeka in 1976.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Securities Exchange Act of 1934, as amended, requires the Company's directors and officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file initial reports of ownership and reports of change in ownership with the SEC. Such persons are required by SEC regulations to furnish the Company with copies of all forms under Section 16(a). To the Company's knowledge, all filings were made on a timely basis during 2004.

Audit Committee

The Board of Directors has a standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee is responsible for the selection, review and oversight of the Company's independent accountants, the approval of all audit, review and attest services provided by the independent accountants, the integrity of the Company's reporting practices and the evaluation of the Company's internal controls and accounting procedures. It also periodically reviews audit reports with the Company's independent auditors. The Audit Committee is currently comprised of Gary Yager, John Montgomery and Thomas Fogt. Each of the members of the Audit Committee are "independent" as that term is defined in Rule 4200(a)(14) of the Nasdaq Marketplace Rules. The Board of Directors has adopted a written charter for the Audit Committee. The Board of Directors has determined that Mr. Fogt is an "audit committee financial expert" as defined under regulations of the SEC.

Code of Ethics

The Company has adopted a code of ethics that applies to all executive officers and directors.

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Item 10. Executive Compensation

The following table sets forth amounts earned over the past three fiscal years by all persons who served as the Chief Executive Officer of the Company at any time during fiscal 2004 and by each person employed by the Company as of the end of fiscal 2004 whose total salary and bonus paid during that year exceeded $100,000.

Annual Compensation

Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)(1)
John F. Van Engelen President and CEO (2)	2004	118,641	28,000	4,000
	2003	--	--	--
	2002	--	--	--
Vincent L. Rocereto	2004	71,277	962	--
Former Executive Vice President and Former President / CEO (3)	2003	73,038	1,731	--
	2002	--	--	--

(1) Other Annual Compensation consists of automobile allowances. The aggregate cost to the Company of such personal benefits did not exceed the lesser of $50,000 or 10% of the total annual salary and bonus received by the applicable executive officers.

(2) Mr. Van Engelen became President and CEO of the Company on February 16, 2004.

(3) Mr. Rocereto became President and CEO of the Company on February 28, 2003. Mr. Rocereto resigned as President and CEO on February 16, 2004. Mr. Rocereto subsequently served as Vice President of Marketing until February 1, 2005, as of which date he became a consultant to the Company serving on an at-will basis.

(4) All Other Compensation for Mr. Van Engelen includes nonqualified moving expenses paid by the Company for the benefit of Mr. Van Engelen in conjunction with his relocation from Spokane, WA to Topeka, KS.

Compensation of Directors

Each non-employee director is paid $750 per regular meeting attended for the Company and its subsidiaries, $75 per telephonic meeting and $250 per committee meeting.

Executive Employment Agreements

On February 16, 2004, the Company entered into an Employment Agreement with Mr. John F. Van Engelen to serve as President and Chief Executive Officer of the Company and its subsidiaries. The agreement was for an initial term of one year. Subsequent to the expiration of the initial term, the agreement became an at-will employment agreement. The agreement calls for a gross annual base salary of $140,000. In addition, a performance bonus of not less than 20% of the gross annual base salary will be paid no later than January 31 of the next year of employment under the agreement if Mr. Van Engelen's performance is determined to be satisfactory by the Company's Board of Directors. The performance bonus will be paid either in cash or shares of the Company's common stock (with the number of shares determined on the basis of the book value of the stock on the last day of the calendar year). In 2005, the Board of Directors of the Company approved a bonus of $28,000 payable with respect to the 2004 fiscal year. The agreement also included an option to purchase 10,000 shares of the Company's common stock at the current book value for a period of one year from the effective date of the agreement. Mr. Van Engelen purchased 1,000 shares pursuant to the option, the remainder of which has expired. In the event that there is a change in control of the Company, whether during the initial term or during at-will employment, Mr. Van Engelen may terminate his employment with the Company within a period of 60 days after the change in control becomes effective. In such event, Mr. Van Engelen will receive a lump sum cash payment in the amount of $280,000 within 30 days of his last day of employment. In addition, if Mr. Van Engelen elects, pursuant to applicable federal or state law, continuation coverage under the Company's health, major medical or dental plans, the Company will pay for the same portion or percentage of such coverage as it was paying prior to his termination of employment, for the first 12 months of such period of continuation coverage or such lesser period of time as he remains eligible for and continues to purchase such continuation coverage.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information as of March 11, 2005, regarding ownership of Common Stock of the Company by (i) the only persons known by the Company to own beneficially more than 5% thereof; (ii) the executive officers and directors individually; and (iii) all officers and directors as a group.

Name and Address of Beneficial Owner	Class of Stock	Amount and Nature of Beneficial Ownership	Percent of Class
Paul E. Burke, Jr. 2009 Camelback Drive Lawrence, KS 66047	Common	50,000	1.18%
Edward C. Carter 4100 Wimbledon Drive Lawrence, KS 66047	Common	85,000	2.01%
Thomas M. Fogt 8200 W 101st Terrace Overland Park, KS 66212	Common	200	*
Kenneth L. Frahm Box 849 Colby, KS 67701	Common	40,000	*
Stephen J. Irsik, Jr. 05405 Six Road Ingalls, KS 67853	Common	69,000	1.63%
Thomas C. Kimery 5009 Brownridge Shawnee, KS 66218	Common	--	*
Rickie D. Meyer 3513 SW Alameda Drive Topeka, KS 66614	Common	256,000	6.04%
John G. Montgomery Box 129 Junction City, KS 66441	Common	45,000	1.06%
Harland E. Priddle 8214 South Haven Rd. Burrton, KS 67020	Common	40,000	*
Patrick A. Tilghman 3208 SW 19th Street Topeka, KS 66604	Common	--	*
John F. Van Engelen 4624 NW Kendall Drive Topeka, KS 66618	Common	1,000	*
Gary E. Yager 3521 SW Lincolnshire Topeka, KS 66614	Common	40,000	*
All Directors and Officers as a Group			

(11 persons)	370,200	8.74%

* Indicates less than 1% ownership.

Item 12. Certain Relationships and Related Transactions

In 2003, the Company borrowed $1,875,578 from Western National Bank of Lenexa, Kansas, to refinance the mortgage on the commercial property and office building that it owns in Topeka, Kansas. The loan that was refinanced was used for the acquisition of the real estate and the development of the building. Gary Yager, a Director of the Company, is the Vice Chairman of Western National Bank. As of December 31, 2004, the remaining principal balance on the note was $1,791,607. The note is payable in 120 monthly payments of $13,534 each with a final payment of the unpaid principal balance and interest due on April 22, 2013. Interest will be accrued at 6% per annum until April 22, 2008, at which time the interest rate may change to the Wall Street Journal Prime Rate of Interest at such time, subject to a floor of 6% per annum and a ceiling of 9.5% per annum. The note is secured by a first priority security interest in the Company's commercial real estate and office building. Management believes that the terms obtained from Western National Bank were no less favorable to the Company than those available from an independent lender.

On March 2, 2005, the Company entered into a Stock Repurchase Agreement with Brooke Corporation, whereby the Company repurchased 450,500 shares of the Company's common stock from Brooke Corporation. The privately-negotiated transaction returns approximately 9.7% of the Company's total stock to the corporate treasury, making it available for use for future planned capitalization. The Company negotiated a purchase price of $770,355 ($1.71 per share) to include $200,000 cash at closing, with Brooke Credit Corporation, the finance subsidiary of Brooke Corporation, financing the remainder at a fixed interest rate of 8% over a ten year period. The agreement also grants Brooke warrants to purchase up to 150,000 shares of the Company's common stock at prices ranging from $1.71 per share to $5.00 per share. The warrants are exercisable in 2012 or immediately prior to any earlier change of control involving FACC, are subject to certain covenants and conditions, and expire no later than 2015.

Pursuant to the Stock Repurchase Agreement, Brooke Corporation agreed that neither it nor its affiliates would take certain actions with respect to the Company or its stock for a period of five years, including acquiring beneficial ownership of the common stock, soliciting proxies or participating in any proxy contest or other effort to take control of the Company or its affiliates.

The Company has granted a second priority security interest in its commercial real property and office building to secure the loan from Brooke Credit Corp.

Mr. Van Engelen entered into an employment agreement with the Company effective February 16, 2004 to serve as President and CEO of the Company. See Item 10 Executive Compensation above.

Item 13. Exhibits and Reports on Form 8-K

The following documents are filed as part of this Form 10-KSB:

(a) Financial Statements are attached hereto and included herein on pages F-1

through F-24.

(b) 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 amended and restated effective January 1, 2002 between First American Capital Corporation and First Life America Corporation (Incorporated by reference from Exhibit 10.3 to the Registrant's Form 10-KSB filed March 31, 2003)
10.3	Operating Agreement of First Computer Services, LLC dated December 1, 2001, as amended (Incorporated by reference from Exhibit 10.3 to the Registrant's Form 10-QSB filed November 15, 2004)
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 (Incorporated by reference from Exhibit 10.5 to the Registrant's Form 10-QSB filed November 15, 2004)
10.6	Intercompany Tax Sharing Agreement dated December 31, 2003 between First American Capital Corporation and First Life America Corporation (Incorporated by reference form Exhibit 10.6 to the Registrant's Form 10-KSB filed March 29, 2004)
10.7	Stock Repurchase Agreement between First American Capital Corporation and Brooke Corporation dated March 2, 2005 (*)
10.8	Warrant for 50,000 shares of First American Capital Corporation common stock for $1.71 per share issued to Brooke Corporation effective March 2, 2005 (*)
10.9	Warrant for 50,000 shares of First American Capital Corporation common stock for $3.35 per share issued to Brooke Corporation

	effective March 2, 2005 (*)
10.10	Warrant for 50,000 shares of First American Capital Corporation common stock for $5.00 per share issued to Brooke Corporation effective March 2, 2005 (*)

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Item 13. Exhibits and Reports on Form 8-K (continued)

Exhibit No.	Description
14.1	First American Capital Corporation Code of Ethics for Executive Management and Board of Directors (Incorporated by reference form Exhibit 14.1 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-QSB filed November 15, 2004)
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 (*)
32.2	Certificate of Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350 (*)

(*) Filed herewith

(c) Reports on Form 8-K.

The Company did not file any reports on Form 8-K during the fourth quarter of 2004.

Item 14. Principal Accountant Fees and Services

All audit related services were pre-approved by the Audit Committee, which concluded that the provision of such services by BKD LLP was compatible with the maintenance of this firm's independence in the conduct of its auditing functions.

The following table represents fees for professional audit services rendered by BKD LLP for the audit of the Company's annual financial statements and for the review of the financial statements included in our quarterly reports.

Years Ended December 31,	
2004	2003

Audit fees (1)	$75,500	$--
	$75,500	$--

(1) Audit fees - Consists of fees billed and anticipated fees for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports, and services that are normally provided by BKD LLP in connection with statutory and regulatory filings or engagements.

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SIGNATURES

In accordance with Section 13 or 15 (d) 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

By /s/ John F. Van Engelen Date 3/30/05

John F. Van Engelen,
President & Chief Executive Officer
Director

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SIGNATURES

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ John F. Van Engelen Date 3/30/05

John F. Van Engelen,
President & Chief Executive Officer
Director

By /s/ Harland E. Priddle Date 3/30/05

Harland E. Priddle,
Chairman & Secretary
Director

By /s/ Patrick A. Tilghman Date 3/30/05

Patrick A. Tilghman,
Treasurer & Chief Financial Officer

By /s/ Thomas M. Fogt Date 3/30/05

Thomas M. Fogt, Director

By /s/ John G. Montgomery Date 3/30/05

John G. Montgomery, Director

By /s/ Gary E. Yager Date 3/30/05

Gary E. Yager, Director

By /s/ Kenneth L. Frahm Date 3/30/05

Kenneth L. Frahm, Director

By /s/ Edward C. Carter Date 3/30/05

Edward C. Carter, Director

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FIRST AMERICAN CAPITAL CORPORATION

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
First American Capital Corporation

We have audited the accompanying consolidated balance sheet of First American Capital Corporation (a Kansas corporation) as of December 31, 2004 and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our respon-sibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First American Capital Corporation as of December 31, 2004 and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Kansas City, Missouri
March 11, 2005

Independent Auditors' Report

Board of Directors and Shareholders
First American Capital Corporation

We have audited the accompanying consolidated balance sheets of First American Capital Corporation (a Kansas corporation) and subsidiary as of December 31, 2003, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of First American Capital Corporation and subsidiary as of December 31, 2003, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ KERBER, ECK & BRAECKEL LLP

Springfield, Illinois
March 18, 2004

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FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
Investments:		
Securities available-for-sale, at fair value:		
Fixed maturities (amortized cost, $13,206,486 in 2004 and $11,432,605 in 2003)	$13,479,388	$12,032,106
Equity securities (cost of $235,400 in 2004 and $41,800 in 2003)	236,342	41,800
Investments in real estate	274,564	274,564
Policy loans	86,946	60,451
Notes receivable (net of valuation allowance of $0 in 2004 and 2003)	--	13,741
Short-term investments	--	460,593
Mortgage loans on real estate	349,542	--
Other investments	206,306	--
Total investments	14,633,088	12,883,255
Cash and cash equivalents	527,028	397,789
Investments in related parties	--	65,200
Accrued investment income	214,140	181,069
Accounts receivable	258,194	296,366
Deferred policy acquisition costs (net of accumulated amortization of $3,081,632 in 2004 and $2,312,021 in 2003)	4,516,994	4,010,959
Property and equipment (net of accumulated depreciation of $668,821 in 2004 and $383,199 in 2003)	2,775,187	2,836,814
Other assets	30,365	7,648
Total assets	$22,954,996	$20,679,100

See notes to consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS (continued)

DECEMBER 31, 2004 AND 2003

	2004	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Policy and contract liabilities:		
Future annuity benefits	$ 6,806,430	$ 4,
Future policy benefits	4,149,304	3,
Liability for policy claims	112,906	
Policyholder premium deposits	186,971	
Deposits on pending policy applications	9,668	
Reinsurance premiums payable	23,120	
Total policy and contract liabilities	11,288,399	8,
Commissions, salaries, wages and benefits payable	103,944	
Other liabilities	200,870	
Note payable	1,791,607	1,
Deferred federal income taxes payable	603,489	
Total liabilities	13,988,309	11,
Shareholders' equity:		
Common stock, $.10 par value, 8,000,000 shares authorized; 5,449,578 shares issued and 4,688,078 shares outstanding in 2004; and 5,449,578 issued and 4,687,078 shares outstanding in 2003	544,958	
Additional paid in capital	12,380,716	12,
Accumulated deficit	(2,795,775)	(2,
Accumulated other comprehensive income	220,454	
Less: Treasury stock held at cost (761,500 shares in 2004 and 762,500 in 2003)	(1,383,666)	(1,
Total shareholders' equity	8,966,687	9,
Total liabilities and shareholders' equity	$22,954,996	$20,

See notes to consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
Revenues:			
Gross premium income	$ 3,640,557	$ 3,657,862	$ 3,441,407

Reinsurance premiums assumed	10,816	5,943	1,077
Reinsurance premiums ceded	(117,761)	(126,531)	(111,624)
Net premium income	3,533,612	3,537,274	3,330,860
Net investment income	517,486	558,418	589,430
Net realized investment gain	463,787	4,820	22,848
Rental income	182,553	213,457	214,676
Other income	38	--	1,334
Total revenue	4,697,476	4,313,969	4,159,148
Benefits and expenses:			
Increase in policy reserves	1,020,812	819,632	786,064
Policyholder surrender values	135,518	127,142	67,162
Interest credited on annuities and premium deposits	344,918	304,283	171,866
Death claims	288,741	251,389	85,767
Commissions	1,059,798	1,235,074	1,336,805
Policy acquisition costs deferred	(1,275,646)	(1,453,440)	(1,680,977)
Amortization of deferred policy acquisition costs	769,611	629,068	423,210
Salaries, wages, and employee benefits	1,119,185	1,150,230	1,352,175
Miscellaneous taxes	171,886	131,922	78,778
Administrative fees - related party	--	--	288,936
Other operating costs and expenses	1,359,969	1,845,155	1,394,120
Total benefits and expenses	4,994,792	5,040,455	4,303,906
Loss before income tax expense	(297,316)	(726,486)	(144,758)
Income tax expense (benefit)	(64,380)	(240,486)	402,468
Net loss	$ (232,936)	$ (486,000)	$ (547,226)
Net loss per common share - basic and diluted	$ (0.05)	$ (0.10)	$ (0.11)

See notes to consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
Net loss	$(232,936)	$(486,000)	$(547,226)
Unrealized gain (loss) on available-for-sale securities:			
Unrealized holding gain (loss) during the period	138,928	(60,789)	392,883
Less: Reclassification for gains included in net income	463,787	4,820	22,848
Tax benefit (expense)	93,011	86,113	(129,514)

Other comprehensive income (loss)	(231,848)	20,504	240,521
Comprehensive loss	$(464,784)	$(465,496)	$(306,705)
Comprehensive loss per common share-basic and diluted	$ (0.10)	$ (0.10)	$ (0.06)

See notes to consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
COMMON STOCK:			
Balance, beginning of year	$ 544,958	$ 544,958	$ 543,
Common shares issued	--	--	1,
Balance, end of year	544,958	544,958	544,
ADDITIONAL PAID IN CAPITAL:			
Balance, beginning of year	12,380,523	12,380,523	12,328,
Additional paid in capital on sale of treasury stock	193	--	
Common shares issued	--	--	51,
Balance, end of year	12,380,716	12,380,523	12,380,
ACCUMULATED DEFICIT:			
Balance, beginning of year	(2,562,839)	(2,076,839)	(1,529,
Net loss	(232,936)	(486,000)	(547,
Balance, end of year	(2,795,775)	(2,562,839)	(2,076,
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Balance, beginning of year	452,302	431,798	191,
Other comprehensive income	(231,848)	20,504	240,
Balance, end of year	220,454	452,302	431,
TREASURY STOCK:			
Balance, beginning of year	(1,385,483)	(1,385,483)	(244,
Sale of 1,000 shares at cost of $1.82 per share	1,817	--	
Purchase of 597,500 common shares at $1.91 per share	--	--	(1,141,
Balance, end of year	(1,383,666)	(1,385,483)	(1,385,
Total shareholders' equity	$ 8,966,687	$ 9,429,461	$ 9,894,

See notes to consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003
OPERATING ACTIVITIES:		
Net loss	$ (232,936)	$ (486,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Interest credited on annuities and premium deposits	344,918	304,283
Net realized investment gain	(463,787)	(4,820)
Provision for depreciation	132,902	124,093
Equity loss in investment in affiliate	28,516	46,049
Amortization of premium and accretion of discount on fixed maturity and short-term investments	138,001	87,980
Interest creditied in certificates of deposit balances	--	--
Realized net loss on disposal of assets	--	2,179
(Benefit) provision for deferred federal income taxes	(64,380)	(219,401)
(Increase) decrease in accrued investment income	(33,071)	(3,471)
Decrease (increase) in accounts receivable	38,172	26,055
Decrease in accounts receivable from affiliate	--	--
Acquisition costs capitalized	(1,275,646)	(1,453,440)
Amortization of deferred acquisition costs	769,611	629,068
(Increase) decrease in policy loans	(26,495)	4,560
(Increase) decrease in other assets	(22,717)	23,496
Increase in future policy benefits	1,020,812	819,632
Increase in liability for policy claims	4,888	29,347
(Decrease) increase in deposits on pending policy applications	(22,823)	(164,522)
(Decrease) increase in reinsurance premiums payable	(8,593)	(8,173)
Increase (decrease) in commissions, salaries, wages and benefits payable	50,929	(2,215)
Decrease in accounts payable to affiliate	--	--
Increase in other liabilities	26,593	66,202
Net cash provided by (used in) operating activities	$ 404,894	$ (179,098)

See notes to consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
INVESTING ACTIVITIES:			
Purchase of available-for-sale fixed maturities	$(10,022,949)	$(2,816,821)	$(5,152,880)
Sale of available-for-sale fixed maturities	6,732,704	--	1,478,352
Maturity of available-for-sale fixed maturities	1,850,000	1,404,000	1,895,000
Purchase of available-for-sale equity securities	(193,600)	--	--
Additions to property and equipment	(71,275)	(12,440)	(26,698)
Dispositions of property and equipment	--	1,400	--
Purchase of other investments	(202,760)	--	--
Purchase of mortgage loans	(350,000)	--	--
Payments received on mortgage loans	458	--	--
Purchase of investments in affiliate	(11,500)	(21,500)	(9,805)
Dispositions of investments in affiliates	48,184	--	--
Additions to notes receivable	--	--	(31,000)
Payments on notes receivable	13,741	14,463	2,796
Purchase of short-term investments	(3,925,512)	(466,312)	(697,403)
Maturity of short-term investments	4,375,507	415,000	2,537,643
Net cash used in investing activities	(1,757,002)	(1,482,210)	(3,995)
FINANCING ACTIVITIES:			
Payments on note payable	(51,400)	(45,837)	(78,484)
Deposits on annuity contracts	1,839,573	1,840,681	1,477,447
Surrenders on annuity contracts	(269,794)	(120,606)	(78,540)
Policyholder premium deposits	22,472	46,858	109,519
Withdrawals on policyholder premium deposits	(61,514)	(62,061)	(67,324)
Purchase of treasury stock	--	--	(1,141,225)
Proceeds from sale of treasury stock	2,010	--	--
Net cash provided by financing activities	1,481,347	1,659,035	221,393
Increase (decrease) in cash and cash equivalents	129,239	(2,273)	(63,301)
Cash and cash equivalents, beginning of period	397,789	400,062	463,363
Cash and cash equivalents, end of period	$ 527,028	$ 397,789	$ 400,062
SUPPLEMENTAL DISCLOSURE OF CASH ACTIVITIES:			
Interest paid	$ 111,004	$ 123,449	$ 143,227
Income taxes paid	$ --	$ --	$ 10,500
SCHEDULE OF NON-CASH INVESTING TRANSACTIONS:			
Common stock issued to Advisory Board Members	$ --	$ --	$ 52,965

See notes to consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

First American Capital Corporation (the "Company") is a holding company whose subsidiary, First Life America Corporation ("FLAC") is primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life and annuity insurance products to individuals in eight states. Approximately 64% of the Company's total policyholders are located in the State of Kansas.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which for FLAC, differ from statutory accounting practices prescribed or permitted by the Kansas Insurance Department ("KID").

Certain amounts from prior years have been reclassified to conform with the current year's presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of the Company and its subsidiary, FLAC. All intercompany accounts and transactions are eliminated in consolidation.

Management's Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. As more information becomes known, actual results could differ from those estimates.

Investments

The Company classifies all of its fixed maturity and equity investments as available-for-sale. Available-for-sale fixed maturities are carried at fair value with unrealized gains and losses, net of applicable taxes, reported in other comprehensive income. Equity securities are carried at fair value with unrealized gains and losses, net of applicable taxes, reported in other comprehensive income. Mortgage loans on real estate are carried at cost less principal payments. Other receivable investments are carried at amortized cost. Discounts originating at the time of purchase, net of capitalized acquisition costs, are amortized using the level yield method on an individual basis over the remaining contractual term of the receivable. Policy loans are carried at unpaid balances. Cash equivalents consist of highly liquid investments with maturities of three months or less at the date of purchase and are carried at cost, which approximates fair value. Notes receivable are reported at unpaid principal balance, net of allowance for uncollectible amounts. Short-term investments consist of investments with original maturities of three months to one year and are carried at cost, which approximates fair value. Realized gains and losses on sales of investments are recognized in operations on the specific identification basis. Interest earned on investments is included in net investment income. Investments in related parties are reported using the equity method (see Note 5).

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Policy Acquisition Costs

Commissions and other costs of acquiring life insurance, which vary with, and are primarily related to, the production of new business have been deferred to the extent recoverable from future policy revenues and gross profits. The acquisition costs are being amortized over the premium paying period of the related policies using assumptions consistent with those used in computing policy reserves.

Property and Equipment

Property and equipment, including the home office building (see Note 6), are carried at cost less accumulated depreciation. Accumulated depreciation on the office building and land improvements is calculated using the straight-line method over the estimated useful lives of the respective assets. Accumulated depreciation on furniture, fixtures and equipment is calculated using the 200% declining balance method over the estimated useful lives of the respective assets. The estimated useful lives are generally as follows:

Building and capitalized interest	39 years
Land improvements	15 years
Furniture, fixtures and equipment	3 to 7 years

Future Annuity Benefits

Annuity contract liabilities are computed using the retrospective deposit method and consist of policy account balances before deduction of surrender charges, which accrue to the benefit of policyholders. Premiums received on annuity contracts are recognized as an increase in a liability rather than premium income. Interest credited on annuity contracts is recognized as an expense. The range of interest crediting rates for annuity products was 4.75 to 6.00 percent in 2004 and 4.75 to 7.88 percent in 2003.

Future Policy Benefits

Traditional life insurance policy benefit liabilities are computed on a net level premium method using assumptions with respect to current yield, mortality, withdrawal rates, and other assumptions deemed appropriate by the Company. Reserve interest assumptions, including the impact of grading for possible adverse deviations, ranged from 5.00 to 7.25 percent.

Liability for Policy Claims

Policy claim liabilities represent the estimated liabilities for claims reported plus claims incurred but not yet reported. The liabilities are subject to the impact of actual payments and future changes in claim factors.

Policyholder Premium Deposits

Policyholder premium deposits represent premiums received for the payment of future premiums on existing policyholder contracts. Interest is credited on these deposits at the rate of 4% in 2004 and 6% in 2003. The premium deposits are recognized as an increase in a liability rather than premium income.

Interest credited on the premium deposits is recognized as an expense.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premiums

For limited payment and other traditional life insurance policies, premium income is reported as earned when due. Profits are recognized over the life of these contracts by associating benefits and expenses with insurance in force for limited payment policies and with earned premiums for other traditional life policies. This association is accomplished by a provision for liability for future policy benefits and the amortization of policy acquisition costs.

Federal Income Taxes

The Company uses the liability method of accounting for income taxes. Deferred income taxes are provided for cumulative temporary differences between balances of assets and liabilities determined under accounting principles generally accepted in the United States of America and balances determined for tax reporting purposes.

Reinsurance

Estimated reinsurance receivables are reported as assets and are recognized in a manner consistent with the liabilities related to the underlying reinsured contracts, in accordance with SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts."

Net Earnings (Loss) Per Common Share

Net income (loss) per common share for basic and diluted earnings per share is based upon the weighted average number of common shares outstanding during each year. The weighted average outstanding common shares were 4,687,086, 4,687,078, and 5,120,804 for the years ended December 31, 2004, 2003 and 2002, respectively.

Comprehensive Income

SFAS No. 130 requires unrealized gains and losses on the Company's available-for-sale securities to be recorded as a component of accumulated other comprehensive income. Unrealized gains and losses recognized in accumulated other comprehensive income that are later recognized in net income through a reclassification adjustment are identified on the specific identification method.

New Accounting Pronouncements

In March 2004, the Emerging Issues Task Force reached further consensus on Issue No. 03-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). EITF 03-1 provides guidance for determining the meaning of "other-than-temporarily impaired" and its application to certain debt and equity securities within the scope of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") and investments accounted for under the cost method. The guidance requires that investments which have declined in value due to

credit concerns or solely due to changes in interest rates must be recorded as other-than-temporarily impaired unless the Corporation can assert and demonstrate its intention to hold the security for a period of time sufficient to allow for a recovery of fair value up to or beyond the cost of the investment, which might mean maturity. This issue also requires disclosures assessing the ability and intent to hold investments in instances in which an investor determines that an investment with a fair value less than cost is not other-than-temporarily impaired.

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The guidance in EITF 03-1 was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, the guidance contained in paragraphs 10-20 of this Issue in EITF Abstracts has been delayed by FASB Staff Position (FSP) EITF Issue 03-1-1, "The Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,'" posted on September 30, 2004. At the November 2004 meeting, the FASB staff indicated that the Board is expected to undertake a comprehensive reconsideration of the guidance in EITF 03-1 and that the measurement and recognition guidance in paragraphs 10-20 of that Issue continue to be deferred by FSP EITF Issue 03-1-1. However, other provisions of EITF 03-1, including its disclosure requirements, have not been deferred. The disclosure requirements continue to be effective in annual financial statements for fiscal years ending after December 15, 2003, for investments accounted for under FASB Statements of Financial Accounting Standards 115 and 124. For all other investments within the scope of this Issue, the disclosures continue to be effective in annual financial statements for fiscal years ending after June 15, 2004.

All other Standards and Interpretations of those Standards issued during 2004 did not relate to accounting policies and procedures pertinent to the Company at this time.

3. INVESTMENTS

The amortized cost and fair value of investments at December 31, 2004 and 2003 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2004:				
U.S. Government Agency	$ 1,848,071	$ 47,607	$ 1,930	$ 1,893,748
Corporate bonds	11,358,415	308,061	80,836	11,585,640
Total	$13,206,486	$355,668	$82,766	$13,479,388
Equity securities	$ 235,400	$ 5,992	$ 5,050	$ 236,342

December 31, 2003:				
U.S. Government Agency	$ 3,428,817	$115,827	$ 4,882	$ 3,539,762
Corporate bonds	8,003,788	495,637	7,081	8,492,344
Total	$11,432,605	$611,464	$11,963	$12,032,106
Equity securities	$ 41,800	$ --	$ --	$ 41,800

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS (CONTINUED)

The amortized cost and fair value of fixed maturities at December 31, 2004, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due in one year or less	$ 912,314	$ 907,825
Due after one year through five years	3,020,183	3,100,048
Due after five years through ten years	2,981,665	3,024,587
Due after ten years	6,292,324	6,446,929
	$13,206,486	$13,479,388

The fair values for investments in fixed maturities are based on quoted market prices.

Included in investments are securities, which have been pledged to various state insurance departments. The fair values of these securities were $2,285,263 and $2,172,541 at December 31, 2004 and 2003, respectively.

During 2004, the Company had gross realized investment gains of $464,363. Investment gains were $4,820 and $39,454 during 2003 and 2002, respectively. During 2004, the Company had gross realized investment losses of $576. Gross realized investment losses totaled $0 and $16,606 in 2003 and 2002, respectively.

During 2002, the Company issued a $31,000 note to an employee of the Company. 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. The remaining principal balance of the note was $0 and $13,741 at December 31, 2004, and 2003, respectively. No valuation allowance was assessed against the note at December 31, 2004 and 2003.

During 2004, the Company commenced purchasing investments in lottery prize cash

flows. These other investments involve purchasing assignments of the future payment rights from the lottery winners at a discounted price sufficient to meet the Company's yield requirements. Payments on these other investments will be made by state run lotteries and as such are backed by the general credit of the respective state. At December 31, 2004 and 2003 the carrying value of other receivables was $206,306 and $0, respectively.

Interest income consists of dividends and interest earned on notes receivable, policy loans, available-for-sale securities, mortgage loans, other investments and short-term investments, which include certificates of deposit.

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FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS (CONTINUED)

Following are the components of net investment income for the years ended December 31, 2004, 2003 and 2002:

	Years ended December 31,		
	2004	2003	2002
Fixed maturities	$509,933	$549,369	$545,051
Equity securities	70	--	--
Notes receivables	238	1,697	2,051
Mortgage loans on real estate	2,275	--	--
Equity loss on investment in related parties	(28,516)	(46,049)	(28,832)
Short-term and other investments	43,798	57,019	73,550
Gross investment income	527,798	562,036	591,820
Investment expenses	(10,312)	(3,618)	(2,390)
Net investment income	$517,486	$558,418	$589,430

The Company has a policy in place to identify securities that could potentially have an impairment that is other than temporary. This policy involves monitoring market events that could impact issuers' credit ratings, business climate, management changes, litigation and government actions, downgrades by rating agencies, financial statements and other similar factors.

The following table provides information regarding unrealized losses on investments available for sale, as of December 31, 2004.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealize Losses
December 31, 2004:						

U.S. Government Agency	$ 401,058	$ 702	$447,332	$1,228	$ 848,390	$ 1,930
Corporate bonds	3,656,639	74,449	522,168	6,387	4,178,807	80,836
Total	$4,057,697	$75,151	$969,500	$7,615	$5,027,197	$82,766
Equity securities	$ 144,600	$ 5,050	$ --	$ --	$ 144,600	$ 5,050

4. CONCENTRATIONS OF CREDIT RISK

Credit risk is limited by emphasizing investment grade securities and by diversifying the investment portfolio among various investment instruments. Credit risk is further minimized by investing in certificates of deposit. Certain certificates of deposit and cash balances exceed the maximum insurance protection of $100,000 provided by the Federal Deposit Insurance Corporation ("FDIC"). However, both certificates of deposit balances and cash balances exceeding this maximum are protected through additional insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

5. 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. 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 year. 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 $28,516, $46,049 and $28,832 for the years ended December 31, 2004, 2003 and 2002, respectively. These amounts are included in net investment income. As of December 31, 2004 and 2003, the carrying value of the FCS investment was $0 and $65,200, respectively.

6. PROPERTY AND EQUIPMENT

The Company owns approximately six and one-half acres of land located in Topeka, Kansas. A 20,000 square foot office building has been constructed on approximately one-half of this land. The remaining land, including improvement costs, is classified as real estate held for investment. The Company occupies approximately 7,500 square feet of the building and the remaining 12,500 square feet is leased (see Note 7).

	2004	2003
Land and improvements	$ 357,675	$ 357,675
Building and capitalized interest	2,605,330	2,605,330
Furniture, fixtures and equipment	481,003	257,008
Total property and equipment	3,444,008	3,220,013
Less - accumulated depreciation and amortization	(668,821)	(383,199)
Net property and equipment	$2,775,187	$2,836,814

7. LEASES

The Company owns a 20,000 square foot office building and occupies approximately 7,500 square feet. The Company has leased 10,000 square feet under a 10 year inclusive non cancelable lease that commenced on July 1, 2001 and will end on June 30, 2011. The lessee may terminate this lease after 5 years, on or after June 30, 2006 upon 90 days notification in writing to the lessor. The Company has leased approximately 2,500 square feet on a month to month basis. This lease was cancelled in December 2003. The remaining 2,500 square feet is available for lease. The future minimum lease payments to be received under non cancelable lease agreements at December 31, 2004 are approximately as follows:

Year Ending December 31,	Amount
2005	183,116
2006	91,558
Total	$274,674

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. FEDERAL INCOME TAXES

Effective June 30, 2003, the Company commenced calculating deferred taxes based on a consolidated income tax return approach. The impact of this change in accounting estimate is reflected in the year ended December 31, 2003 summary of operations. Income tax expense was reduced by $347,412, or $.07 per share, for the year ended December 31, 2003, resulting in an income tax benefit of $240,486 for the year ended December 31, 2003.

The Company has elected to file a consolidated federal income tax return with FLAC for the years ended December 31, 2004 and 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. Federal income tax expense for the years ended December 31, 2004, 2003, and 2002

consisted of the following:

	Years ended December 31,		
	2004	2003	2002
Current	$ --	$ (21,089)	$ --
Deferred	(64,380)	(219,397)	402,468
Federal income tax (benefit) expense	$(64,380)	$(240,486)	$402,468

Federal income tax expense differs from the amount computed by applying the statutory federal income tax rate for 2004, 2003 and 2002 as follows:

	Years ended December 31,		
	2004	2003	2002
Federal income tax expense (benefit) at statutory rate	$(101,088)	$(247,005)	$(50,665)
Small life insurance company deduction	(64,975)	(51,616)	--
Increase in valuation allowance	100,202	234,152	480,683
Income tax recoverable from NOL carryback	--	(21,089)	--
Other	1,481	(154,928)	(27,550)
Federal income tax (benefit) expense	$ (64,380)	$(240,486)	$402,468

8. FEDERAL INCOME TAXES (CONTINUED)

Deferred federal income taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Significant components of the Company's net deferred tax liability are as follows:

	December 31,	
	2004	2003
Deferred tax liability:		
Due premiums	$ 10,659	$ 16,153
Deferred policy acquisition costs	761,870	675,324
Accrual of discount	4,253	11,387

Net unrealized investment gains	53,385	146,395
Total deferred tax liability	830,167	849,259
Deferred tax asset:		
Policy reserves	74,607	82,035
Reinsurance premiums	4,624	6,343
Net operating loss carryforward	1,852,075	1,602,890
Capital loss carryforward	--	1,536
Total deferred tax asset	1,931,306	1,692,804
Valuation allowance	(1,704,628)	(1,604,426)
Net deferred tax asset	226,678	88,378
Net deferred tax liability	$ 603,489	$ 760,881

The Company has net operating loss carryforwards of approximately $5,750,845 on a consolidated basis. Net operating loss carryforwards of $799,241 resulted from non-life insurance operations and were generated prior to the base period for tax consolidation purposes. These loss carryforwards expire in 2011 and 2012 and can only be used to offset taxable income resulting from non-life insurance operations. Net operating loss carryforwards of $4,214,374 resulted from non-life insurance operations and were generated either during or subsequent to the base period for tax consolidation purposes. These loss carryforwards expire in 2018 through 2024 and can be used to offset either taxable income resulting from non-life insurance operations or 35% of taxable income resulting from life insurance operations. Net operating loss carryforwards of $737,230 resulted from life insurance operations and were generated either during or subsequent to the base period for tax consolidation purposes. These loss carryforwards expire in 2022 and 2023.

9. NOTE PAYABLE

On July 20, 2001, the Company borrowed $2 million from Columbian Bank and Trust Company secured by its home office building (See Note 6). The note was scheduled to mature on July 15, 2016. The note was payable in 120 monthly payments of $18,000 each and 59 monthly payments of $18,444 each and a final payment of the balance due. The lender could, when an increase occurred in the interest rate, increase the amount of the monthly payment or increase the number of payments required. Interest was payable monthly based on the 5-year T-Bill rate (4.40% at the date of the loan) plus a margin of 2.60 percentage points. The interest rate would have been recomputed at the end of 5 years and 10 years based on the current 5-year T-Bill rate at that time.

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FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. NOTE PAYABLE (CONTINUED)

On April 22, 2003, the Company refinanced the note to Columbian Bank and Trust Company with a note from Western National Bank (See Note 13). The note is secured by the home office building. The note will mature on April 22, 2013. The note is payable in 120 monthly payments of $13,534 each with a final payment of the unpaid principal balance and interest on April 22, 2013. Interest will be accrued at 6% until April 22, 2008 at which time the rate may change. The

interest rate change will be the Wall Street Journal Prime Rate of Interest, subject to a floor of 6% and a ceiling of 9.5%.

Required future principle payments are as follows:

Year	Principal Payment
2005	54,936
2006	58,373
2007	62,024
2008	65,624
2009	70,010
Thereafter	1,480,640
Total	1,791,607

10. SHAREHOLDERS' EQUITY AND STATUTORY ACCOUNTING PRACTICES

FLAC prepares its statutory-basis financial statements in accordance with statutory accounting practices ("SAP") prescribed or permitted by the KID. Currently, "prescribed" statutory accounting practices include state insurance laws, regulations, and general administrative rules, as well as the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual and a variety of other NAIC publications. "Permitted" statutory accounting practices encompass all accounting practices that are not prescribed; such practices may differ from state to state, may differ from company to company within a state, and may change in the future. During 1998, the NAIC adopted codified statutory accounting principles ("Codification"). Codification replaced the NAIC Accounting Practices and Procedures Manual and was effective January 1, 2001. The impact of Codification was not material to FLAC's statutory-basis financial statements.

Net income for 2004, 2003, and 2002 and capital and surplus at December 31, 2004, 2003, and 2002 for the Company's insurance operations as reported in these financial statements prepared in accordance with GAAP as compared to amounts reported in accordance with SAP prescribed or permitted by the KID are as follows:

	GAAP		SAP	
	Net Income (loss)	Capital and Surplus	Net Income (loss)	Capital and Surplus
2004	528,494	6,251,955	(54,205)	2,539,348
2003	609,166	5,796,464	(253,955)	2,615,342
2002	78,160	5,190,658	(671,551)	2,879,079

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. SHAREHOLDERS' EQUITY AND STATUTORY ACCOUNTING PRACTICES (CONTINUED)

Principal differences between GAAP and SAP include: a) costs of acquiring new policies are deferred and amortized for GAAP; b) benefit reserves are calculated using more realistic investment, mortality and withdrawal assumptions for GAAP; c) statutory asset valuation reserves are not required for GAAP; and d) available-for-sale fixed maturity investments are reported at fair value with unrealized gains and losses reported as a separate component of shareholders' equity for GAAP.

Statutory restrictions limit the amount of dividends, which may be paid by FLAC to the Company. Generally, dividends during any year may not be paid without prior regulatory approval, in excess of the lesser of (a) 10% of statutory shareholders' surplus as of the preceding December 31, or (b) statutory net operating income for the preceding year. In addition, FLAC must maintain the minimum statutory capital and surplus required for life insurance companies in those states in which it is licensed to transact life insurance business.

The KID imposes on insurance enterprises minimum risk-based capital ("RBC") requirements that were developed by the NAIC. The formulas for determining the amount of RBC specify various weighing factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by ratio (the "Ratio") of the enterprises regulatory total adjusted capital, as defined by the NAIC, to its authorized control level RBC, as defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. FLAC has a ratio that is in excess of the minimum RBC requirements; accordingly, FLAC meets the RBC requirements.

11. 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. The petition 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 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.

On December 12, 2003, Meyer filed an Answer and Counterclaim against the Company asserting claims for defamation and breach of employment agreement. Meyer seeks damages in excess of $75,000 plus interest and costs on his defamation claims. 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.

The Company denies Meyer's allegations and will vigorously defend against them as well as pursue its claims against Meyer. The trial is currently in the

discovery stage. No trial date has been set. 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.

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. REINSURANCE

In order to reduce the risk of financial exposure to adverse underwriting results, insurance companies reinsure a portion of their risks with other insurance companies. FLAC has entered into agreements with Generali USA Life Reassurance Company ("Generali") of Kansas City, Missouri, as well as Optimum Re Insurance Company ("Optimum Re") of Dallas, Texas, to reinsure portions of the life insurance risks it underwrites. Pursuant to the terms of the agreements, FLAC retains a maximum coverage exposure of $50,000 on any one insured. Currently, insurance ceded to Optimum Re is limited to the 10-year term policies. At December 31, 2004 and 2003, respectively, FLAC ceded inforce amounts totaling $30,675,126 and $35,734,200 of ordinary business and $35,695,000 and $36,920,000 of accidental death benefit risk.

Pursuant to the terms of the agreement with Generali, FLAC generally pays no reinsurance premiums on first year individual business. However, SFAS No. 113 requires the unpaid premium to be recognized as a first year expense and amortized over the estimated life of the reinsurance policies. FLAC records this unpaid premium as "reinsurance premiums payable" in the accompanying balance sheet and as "reinsurance premiums ceded" in the accompanying income statement. At December 31, 2004 and 2003, respectively, the unpaid reinsurance premiums net of amortization totaled $23,120 and $31,713. To the extent that the reinsurance companies are unable to fulfill their obligations under the reinsurance agreements, FLAC remains primarily liable for the entire amount at risk.

FLAC is party to an Automatic Retrocession Pool Agreement (the "Reinsurance Pool") with Optimum Re, Catholic Order of Foresters, American Home Life Insurance Company and Woodmen of the World. The agreement provides for automatic retrocession of coverage in excess of Optimum Re's retention on business ceded to Optimum Re by the other parties to the Reinsurance Pool. FLAC's maximum exposure on any one insured under the Reinsurance Pool is $50,000. During 2004 and 2003, respectively, FLAC assumed inforce amounts totaling $16,629,840 and $13,460,796.

13. RELATED PARTY TRANSACTIONS

The Company contracted with FAC to provide underwriting and accounting services for FLAC and the Company. Under the terms of the management agreement, the Company paid fees based on a percentage of delivered premiums of FLAC. The percentages were 5.5% of first year premiums; 4% of second year premiums; 3% of third year premiums; 2% of fourth year premiums, 1% of fifth year premiums, and 1% for years six through ten for ten year policies and .5% in years six through twenty for twenty year policies. Pursuant to the agreement, the Company incurred $288,936 of fees during 2002.

Effective September 30, 2002 the Company acquired 525,000 shares of its common stock held by FAC for an aggregate purchase price of $1,002,750. In conjunction with the agreement to repurchase the stock, the Company also acquired 72,500 shares of its common stock held by six individuals associated with FAC for an aggregate purchase price of $138,475. In a related agreement, the Company and

FAC agreed to terminate the management agreement between the parties through which the Company received administrative, reporting and underwriting services from FAC. Termination of the agreement occurred by the Company making a lump-sum payment of $212,000 to FAC on September 30, 2002. This amount represented the then present value of fees anticipated to be earned by FAC under the agreement which would otherwise have been payable over time. These agreements effectively severed FAC's financial interest in the Company.

The Company's note payable (See Note 9) was obtained through Western National Bank. A Director of the Company is the Vice Chairman of Western National Bank. The terms of the note payable were determined by competitive bid.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments, and the methods and assumptions used in estimating their fair values, are as follows:

Fixed Maturities

Fixed maturities are carried at fair value in the accompanying consolidated balance sheets. The fair value of fixed maturities are based on quoted market prices. At December 31, 2004 and 2003, the fair value of fixed maturities was $13,479,388 and $12,032,106, respectively.

Equity Securities

Equity securities are carried at fair value in the accompanying consolidated balance sheets. The fair value of equity securities are based on quoted market prices. At December 31, 2004 and 2003, the fair value of equity securities was $236,342 and $41,800, respectively.

Policy Loans

The carrying value of policy loans approximates their fair value. At December 31, 2004 and 2003, the fair value of policy loans was $86,946 and $60,451, respectively.

Notes Receivable

The carrying value of notes receivable approximates their fair value. At December 31, 2004 and 2003, the fair value of notes receivable was $0 and $13,741 respectively.

Short-term Investments

The carrying value of short-term investments approximates their fair value. At December 31, 2004 and 2003, the fair value of short-term investments was $0 and $460,593, respectively.

Mortgage Loans on Real Estate

The carrying value of mortgage loans on real estate approximates their fair value. At December 31, 2004 and 2003, the fair value of mortgage loans on real estate was $349,542 and $0, respectively.

Other Investments

The carrying value of other investments approximates their fair value. At December 31, 2004 and 2003, the fair value of other investments was $206,306 and $0, respectively.

Cash and Cash Equivalents

The carrying value of cash and cash equivalents approximates their fair value. At December 31, 2004 and 2003, the fair value of cash and cash equivalents was $527,028 and $397,789, respectively.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments in Related Parties

The Company holds investments in related parties of $0 and $65,200 at December 31, 2004 and 2003, respectively. The balance represents the Company's investment in First Computer Services, LLC ("FCS"). The company uses the equity method to account for this investment. Refer to Note 5 for more information.

15. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," became effective for 1998 and superseded SFAS No. 14. SFAS No. 131 requires a "management approach" (how management internally evaluates the operating performance of its business units) in the presentation of business segments. The segment data that follows has been prepared in accordance with SFAS No. 131. 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 December 31, 2004, 2003 and 2002 and for the years then ended is as follows:

	2004	2003	2002
Revenues:			
Life and annuity insurance operations	$ 4,293,633	$ 3,988,400	$ 3,712,523
Corporate operations	403,843	325,569	446,625
Total	$ 4,697,476	$ 4,313,969	$ 4,159,148
Income (loss) before income taxes:			
Life and annuity insurance operations	$ 464,114	$ 368,682	$ 480,628
Corporate operations	(761,430)	(1,095,168)	(625,386)
Total	$ (297,316)	$ (726,486)	$ (144,758)
Depreciation and amortization expense:			
Life and annuity insurance operations	$ 769,611	$ 629,068	$ 423,210
Corporate operations	132,902	124,093	134,999

Total	$ 902,513	$ 753,161	$ 558,209
Assets:			
Life and annuity insurance operations	$18,305,111	$15,053,265	$12,090,507
Corporate operations	4,649,885	5,625,835	6,656,009
Total	$22,954,996	$20,679,100	$18,746,516

16. SUBSEQUENT EVENTS

On March 2, 2005 the Company acquired 450,500 shares of its common stock from a single, corporate shareholder, Brooke Corporation. The Company negotiated a purchase price of $770,355 ($1.71 per share) to include $200,000 cash at closing, with Brooke Credit Corporation, the finance subsidiary of Brooke Corporation, financing the remainder at a fixed interest rate of 8 percent over a ten year period. The agreement also grants Brooke warrants to purchase up to 150,000 shares of the Company's common stock at prices ranging from $1.71 per share to $5.00 per share. The warrants are exercisable in 2012 or immediately prior to any earlier change of control involving the Company, are subject to certain covenants and conditions, and expire no later than 2015.