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FIRST AMERICAN CAPITAL CORP /KS

Form 10QSB

May 14, 2001

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2001.

[] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number : 0-25679

FIRST AMERICAN CAPITAL CORPORATION

(Exact Name of small business issuer in its charter)

Kansas

48-1187574

(State of incorporation) (I.R.S. Employer Identification Number)

1303 S.W. First American Place Topeka, Kansas 66604

(Address of principal executive offices)

Issuer's telephone number (785) 267-7077

3360 S.W. Harrison Street, Suite 100 Topeka, Kansas 66611

Former name, former address and former fiscal year, if changed since last report

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

Common Stock, \$.10 Par Value - 5,418,860 shares as of May 10, 2001

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

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FIRST AMERICAN CAPITAL CORPORATION

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2001	December 31, 2000
	-----	-----
ASSETS	(Unaudited)	
Investments:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost, \$7,111,579 in 2001 and \$6,023,296 in 2000)	\$ 7,349,327	\$ 6,241,820
Policy loans	16,432	5,990
Notes receivable (net of valuation allowance of \$14,524 in 2001 and \$18,414 in 2000)	26,868	30,262
Short-term investments	3,808,903	4,437,280
Total investments	11,201,530	10,715,352
	-----	-----

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Cash and cash equivalents	807,747	832,485
Investments in related parties	16,800	16,800
Prepaid administrative fees - related party	88,808	-
Accrued investment income	182,583	148,487
Accounts receivable	111,338	93,167
Deferred policy acquisition costs (net of accumulated amortization of \$856,382 in 2001 and \$800,619 in 2000)	1,403,588	1,272,554
Property and equipment, net of accumulated depreciation	2,023,190	1,283,522
Other assets	11,701	18,387
	-----	-----
Total assets	\$ 15,847,285	\$ 14,380,754
	=====	=====

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CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

	March 31, 2001	December 31, 2000
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY	(Unaudited)	
Policy and contract liabilities:		
Annuity contract liabilities	\$ 793,512	\$ 486,533
Life policy reserves	1,048,674	919,635
Liability for policy claims	38,941	22,306
Policyholder premium deposits	95,050	74,469
Deposits on pending policy applications	176,153	76,379
Reinsurance premiums payable	26,693	28,561
	-----	-----
Total policy and contract liabilities	2,179,023	1,607,883
Commissions, salaries, wages and benefits payable	139,473	114,018
Other liabilities	55,715	28,811
Note payable	1,393,873	698,018
Accounts payable to affiliate	-	18,047
Federal income taxes payable:		
Deferred	424,349	361,403
	-----	-----
Total liabilities	4,192,433	2,828,180
Shareholders' equity:		
Common stock, \$.10 par value, 8,000,000 shares		
authorized; 5,418,860 shares issued and 5,303,860 shares		
outstanding in 2001 and 2000	541,886	541,886
Additional paid in capital	12,230,005	12,230,005
Retained earnings - deficit	(1,084,818)	(1,176,785)
Accumulated other comprehensive income	154,537	144,226
Less: treasury shares held at cost (115,000 shares		
in 2001 and 2000)	(186,758)	(186,758)
	-----	-----

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Total shareholders' equity	11,654,852	11,552,574
	-----	-----
Total liabilities and shareholders' equity	\$15,847,285	\$ 14,380,754
	=====	=====

See notes to consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended	
	March 31,	March 31,
	2001	2000
	(Unaudited)	(Unaudited)
	-----	-----
REVENUES		
Gross premium income	\$ 593,177	\$ 541,702
Reinsurance premiums ceded	(24,795)	(15,311)
	-----	-----
Net premium income	568,382	526,391
Net investment income	215,501	160,612
Other income	3,080	-
	-----	-----
Total revenue	786,963	687,003
BENEFITS AND EXPENSES		
Increase in policy reserves	129,039	160,461
Policyholder surrender values	7,630	37
Interest credited on annuities and premium deposits	12,747	2,305
Death claims	38,142	-
Commissions	148,407	205,767
Policy acquisition costs deferred	(186,796)	(290,089)
Amortization of deferred policy acquisition costs	55,762	99,272
Salaries, wages and employee benefits	192,426	169,978
Miscellaneous taxes	4,370	10,537
Administrative fees - related party	35,729	32,167
Other operating costs and expenses	200,660	161,698
	-----	-----
Total benefits and expenses	638,116	552,133
	-----	-----
INCOME BEFORE INCOME TAX EXPENSE	148,847	134,870
	-----	-----
Income tax expense	56,880	99,826
	-----	-----
NET INCOME	\$ 91,967	\$ 35,044
	=====	=====
NET INCOME PER COMMON SHARE-- BASIC AND DILUTED	\$ 0.02	\$ 0.01
	=====	=====

See notes to consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2001	March 31, 2000
	----- (Unaudited)	----- (Unaudited)
OPERATING ACTIVITIES:		
Net income	\$ 91,967	\$ 35,044
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest credited on annuities and premium deposits	12,747	2,305
Provision for depreciation and amortization	3,977	3,243
Amortization of premium and accretion of discount on fixed maturity and short-term investments	(7,491)	(1,263)
Interest credited to certificates of deposit balances	(18,230)	-
Realized net loss on disposal of assets	1,034	-
Provision for deferred federal income taxes	54,033	97,326
Increase in prepaid administrative fees - related party	(88,808)	-
Increase in accrued investment income	(34,096)	(28,688)
Increase in accounts receivable	(18,171)	(23,726)
Increase in deferred policy acquisition costs, net	(131,034)	(190,817)
Increase in policy loans	(10,442)	-
Decrease (increase) in other assets	6,686	(5,217)
Increase in policy reserves	129,039	160,461
Increase in liability for policy claims	16,635	-
Increase in deposits on pending policy applications	99,774	141,049
Decrease in reinsurance premiums payable	(1,868)	(1,854)
Increase in commissions, salaries, wages and benefits payable	25,455	17,239
Increase (decrease) in accounts payable to affiliate	(18,047)	35,518
Increase (decrease) in other liabilities	26,904	(19,093)
Net cash provided by operating activities	\$ 140,064	\$ 221,527

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FIRST AMERICAN CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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	Three months ended March 31 2001	March 31 2000
	----- (Unaudited)	----- (Unaudited)
INVESTING ACTIVITIES:		
Purchase of available-for-sale fixed maturities	\$ (1,731,814)	\$ (1,041,193)
Sale of available-for-sale fixed maturities	651,000	-
Additions to property and equipment, net	(744,679)	(2,552)
Changes in notes receivable, net	3,394	-
Short-term investments (acquired) disposed, net	646,629	795,765
	-----	-----
Net cash used in investing activities	(1,175,470)	(247,980)
FINANCING ACTIVITIES:		
Proceeds from note payable	695,855	-
Deposits on annuity contracts, net	295,573	139,093
Policyholder premium deposits, net	19,240	(8,306)
	-----	-----
Net cash provided by financing activities	1,010,668	130,787
	-----	-----
Increase (decrease) in cash and cash equivalents	(24,738)	104,334
Cash and cash equivalents, beginning of period	832,485	793,885
	-----	-----
Cash and cash equivalents, end of period	\$ 807,747	\$ 898,219
	=====	=====

See notes to consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of First American Capital Corporation and its Subsidiaries (the "Company") for the three month period ended March 31, 2001 and 2000 are unaudited. However, in the opinion of the Company, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been reflected therein.

Certain financial information which is normally included in financial statements prepared in accordance with generally accepted accounting principles, but which is not required for interim reporting purposes, has been omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the fiscal year ended December 31, 2000. Certain reclassifications have been made in the prior period financial statements to conform with the current year presentation.

2. SUBSIDIARY OPERATIONS

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The Company's wholly owned subsidiary, First Life America Corporation ("FLAC"), results of operations are included in the condensed consolidated financial information for the three month periods ending March 31, 2001 and 2000. The Company's venture capital subsidiary, First Capital Venture Inc. ("FCVI"), has not been capitalized or commenced operations.

3. INVESTMENTS

The Company classifies all of its available-for-sale fixed maturities at the current market value. Adjustments to market value are recognized as a separate component of shareholders' equity net of applicable federal income tax effects. The following table details the investment values at March 31, 2001:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	-----	-----	-----	-----
Special Revenue Bonds	\$3,346,772	\$ 85,369	\$ 1,296	\$3,430,845
Corporate Bonds	3,404,807	154,659	984	3,558,482
Certificates of Deposit	360,000	-	-	360,000
	-----	-----	-----	-----
	\$7,111,579	\$ 240,028	\$ 2,280	\$7,349,327

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN RELATED PARTIES

On June 20, 2000, the Company purchased, through a private placement, 168,000 shares of the common stock of Mid-Atlantic Capital Corporation ("MCC") of Charleston, West Virginia for \$16,800. At March 31, 2001, MCC had raised \$850,000 from the sale of private placement shares. MCC intends to register a West Virginia intrastate public offering of \$12,000,000. After MCC's private placement and public offerings are complete, the Company will own 3.05% of the outstanding common stock. These shares are not registered under the Securities Act of 1933, and are subject to restrictions on transferability and resales and may not be transferred or resold except as permitted under the Act and applicable state securities laws, pursuant to registration or exemption therefrom. Michael N. Fink, who is the Company's Chairman of the Board, will also serve as a Co-Chairman of the Board for MCC.

5. PROPERTY AND EQUIPMENT

During 1999, the Company acquired approximately six and one-half acres of land, located in Topeka, Kansas for \$325,169. A 20,000 square foot building to be used as a home office has been constructed on approximately one-third of this land. Approximately 10,000 square feet will be occupied by the Company with the remaining office space to be leased to unaffiliated parties. Costs incurred to date at March 31, 2001 totaled \$1,980,251, of which \$625,989 was related to land cost and preparation and \$1,323,354 was related to building construction. Also

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included in total property of \$1,980,251, is \$30,908 of capitalized interest costs incurred on the construction loan.

In May, the Company will relocate its home office to the newly constructed building. The 10,000 square feet of office space to be leased is expected to be completed by June of 2001. Once the entire project is completed, the remaining portion of the land will be sold.

The components of property and equipment as of March 31, 2001 are as follows:

	2001

Property (home office building)	\$1,980,251
Less: Accumulated depreciation	-

Net property	1,980,251

Equipment	89,194
Less: Accumulated depreciation	(46,255)

Net equipment	42,939

Property and equipment, net	\$2,023,190
	=====

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. DEFERRED POLICY ACQUISITION COSTS

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

7. NET EARNINGS PER COMMON SHARE

Net income per common share for basic and diluted earnings per share is based upon the weighted average number of common shares outstanding during each period. The weighted average outstanding common shares was 5,303,860 and 5,448,860 for the three months ended March 31, 2001 and 2000, respectively.

8. FEDERAL INCOME TAXES

The company does not file a consolidated federal income tax return with FLAC. FLAC is taxed as a life insurance company under the provisions of the Internal Revenue Code and must file a separate tax return for its initial six years of existence. At March 31, 2001 and 2000 estimated Federal Income Tax expense was \$56,880 and \$99,826, respectively. The Federal Income Tax expense at March 31, 2001 included \$2,847 of current tax expense and \$54,033 of deferred tax

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expense, and March 31, 2000 included \$2,500 of current tax expense and \$97,326 of deferred tax expense. 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.

9. RELATED PARTY TRANSACTIONS

Effective December 31, 1998, the Company entered into a service agreement with FLAC to provide personnel, facilities, and services to FLAC. The services to be performed pursuant to the service agreement are underwriting, claim processing, accounting, processing and servicing of policies, and other services necessary to facilitate FLAC's business. The agreement is in effect until either party provides ninety days written notice of termination. Under the agreement, FLAC pays monthly fees based on life premiums delivered by FLAC. The percentages are 25% of first year life premiums; 40% of second year life premiums; 30% of third year life premiums 20% of fourth year life premiums and 10% of life premiums in years five and thereafter. FLAC will retain general insurance expenses related to its sales agency, such as agent training and licensing, agency meeting expenses, and agent's health insurance. Pursuant to the terms of the agreement, FLAC had incurred expenses of \$181,055 for the three months ended March 31, 2001 and \$155,463 for the three months ended March 31, 2000.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. RELATED PARTY TRANSACTIONS (CONTINUED)

The Company has contracted with First Alliance Corporation ("FAC") of Lexington, Kentucky to provide underwriting and accounting services for FLAC and the Company. Under the terms of the management agreement, the Company pays fees based on a percentage of delivered premiums of FLAC. The percentages are 5.5% for 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 \$35,729 and \$32,167 of management fees during the three months ended March 31, 2001 and 2000, respectively. FAC also owns approximately 9.7% of the Company's outstanding common shares.

In March of 2001, the Company prepaid \$100,000 of administrative fees to FAC. The prepayment represents discounted estimated fees for the remainder of 2001. At March 31, 2001, such fees totaled \$11,192 and reduced the prepaid balance to \$88,808.

10. CONCENTRATIONS OF CREDIT RISK

Credit risk is limited by emphasizing investment grade securities and by diversifying the investment portfolio among U.S. Government Agency and Corporate bonds. 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.

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. COMPREHENSIVE INCOME

In 1998, the Financial Accounting and Standards Board issued Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting Comprehensive Income." SFAS 130 requires the detail of comprehensive income for the reporting period be disclosed in the financial statements. Comprehensive income consists of net income or loss for the current period adjusted for income, expenses gains and losses that are reported as a separate component of shareholders' equity rather than in the statement of operations. The financial statements have been prepared in accordance with SFAS 130.

The components of comprehensive income (loss) along with the related tax effects are presented below for the quarters ended March 31, 2001 and 2000.

	Three months ended March 31, March 31, 2001 2000	
	-----	-----
Unrealized gain/(loss) on available-for-sale securities:		
Unrealized holding gains/(losses) during the period	\$ 237,748	\$ (43,140)
Tax benefit/(expense)	(83,211)	14,667
	-----	-----
Other comprehensive income/(loss)	\$ 154,537	\$ (28,473)
	=====	=====
Net income	\$ 91,967	\$ 35,044
Other comprehensive income/(loss) net of tax effect:		
Unrealized investment gain/(loss)	154,537	(28,473)
	-----	-----
Comprehensive income	\$ 246,504	\$ 6,571
	=====	=====
Net income per common share-basic and diluted	\$ 0.05	\$ -
	=====	=====

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. SEGMENT INFORMATION

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SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," become 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 March 31, 2001 and December 31, 2000 and for the three months ended March 31, 2001 and 2000 is as follows:

	2001	2000
	-----	-----
Revenues:		
Life and annuity insurance operations	\$ 668,557	\$ 577,177
Corporate operations	118,406	109,826
	-----	-----
Total	\$ 786,963	\$ 687,003
	=====	=====
Income (loss) before income taxes:		
Life and annuity insurance operations	\$ 187,078	\$ 182,055
Corporate operations	(38,231)	(47,185)
	-----	-----
Total	\$ 148,847	\$ 134,870
	=====	=====
Assets:		
Life and annuity insurance operations	\$ 6,833,481	\$ 6,024,504
Corporate operations	9,013,804	8,356,250
	-----	-----
Total	\$15,847,285	\$14,380,754
	=====	=====
Depreciation and amortization expense:		
Life and annuity insurance operations	\$ 55,762	\$ 99,272
Corporate operations	3,977	3,243
	-----	-----
Total	\$ 59,739	\$ 102,515
	=====	=====

13. MATERIAL COMMITMENTS

The Company is currently constructing a building to be used as the Company's home office (see note 5). Based on quoted costs and other management estimates, total estimated land and building construction costs will total \$3,100,000 upon completion of the project. Of these estimated total costs, \$1,980,251 has been incurred at March 31, 2001, leaving estimated remaining costs of \$1,119,749.

The Company entered into a twelve month construction loan with Columbian Bank for \$2,000,000 as partial financing of the project. As of March 31, 2001, \$1,393,873 of the \$2,000,000 construction loan had been borrowed, leaving available funds in the amount of \$606,127 to complete the project. The remaining estimated costs of \$513,622 will be financed with internal funds.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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

The statements contained in this report, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Any projections of financial performances or statements concerning expectations as to future developments should not be construed in any manner as a guarantee that such results or developments will, in fact, occur. There can be no assurance that any forward-looking statement will be realized or that actual results will not be significantly different from that set forth in such forward-looking statement. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company referred to above are also subject to risks and uncertainties.

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

Financial Position

Significant changes in the consolidated balance sheets from December 31, 2000 to March 31, 2001 are highlighted below.

Total assets increased from \$14,380,754 at December 31, 2000 to \$15,847,285 at March 31, 2001. The Company's available-for-sale fixed maturities had a fair value of \$7,349,327 and amortized cost of \$7,111,579 at March 31, 2001. This investment portfolio is reported at market value with unrealized gains and losses, net of applicable deferred taxes, reflected as a separate component in Shareholders' Equity. Several of the short-term investments held by the Company in 2000 were either sold or matured and the proceeds were used to purchase investments in available-for-sale fixed maturity investments with higher yields during the first quarter of 2001. This change caused a 14% decrease in short-term investments and an 18% increase (on an amortized cost basis) in the Company's fixed maturities portfolio from 2000 to 2001.

The Company limits credit risk by emphasizing investment grade securities and by diversifying its investment portfolio among U.S. Government Agency and Corporate bonds. Credit risk is further minimized by investing in certificates of deposit. As a result, management believes that significant concentrations of credit risk do not exist.

In March of 2001, \$100,000 of administrative fees were prepaid to First Alliance Corporation, a related party which provides accounting and other administrative services for the Company. The prepayment represents discounted estimated fees for the remainder of 2001. The Company will earn nine and one-half percent on the balance of the prepayment and will be calculated monthly after fees for each month are incurred. Management anticipates that the prepaid balance will be reduced to zero by December of 2001. At March 31, 2001, fees in the amount of \$11,192 were incurred, reducing the prepaid balance to \$88,808.

Deferred policy acquisition costs, net of amortization, increased from \$1,272,554 at December 31, 2000 to \$1,403,588 at March 31, 2001 resulting from

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the capitalization of acquisition expenses related to the increasing sales of life insurance. These acquisition expenses include commissions and management fees incurred in the first policy year.

Included in property and equipment at March 31, 2001 and December 31, 2000, respectively, is \$1,980,251 and \$1,247,740 in costs related to constructing a 20,000 square foot office building to be used for the Company's new

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home office facility. The Company acquired approximately six and one-half acres of land for \$325,169 in 1999, and the building is currently being constructed on approximately one-third of this land. Approximately 10,000 square feet will be occupied by the Company with the remaining office space to be leased to unaffiliated parties. As of March 31, 2001, \$300,820 was incurred for land preparation. Additionally, building construction costs, including \$30,908 in capitalized interest costs, totaled \$1,354,262.

Liabilities increased to \$4,192,433 at March 31, 2001 from \$2,828,180 at December 31, 2000. A significant portion of this increase is due to life insurance related policy liabilities. Policy reserves established due to the sale of life insurance increased approximately 14% from 2000 to 2001. These reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. Liabilities for policy claims are recorded based on reported death.

There was an increase in the amount of \$306,979 for annuity contract liabilities from December 31, 2000 to March 31, 2001. According to the design of FLAC's primary life insurance product, first year premiums payments are allocated 100% to life insurance and renewal payments are split 50% to life and 50% to annuity. In the first three months of 2001, annuity contract liabilities increased as additional policies reached the second policy year. Deposits on pending policy applications represent money submitted with policy applications that have not yet been approved. Any increases or decreases in this liability from one period to another are due to the timing of approval and delivery of the new business.

In accordance with existing reinsurance agreements, 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 balance sheets and as "Reinsurance premiums ceded" in the income statements. At March 31, 2001 and December 31, 2000, respectively, the unpaid reinsurance premiums net of amortization totaled \$26,693 and \$28,561.

During 2000, the Company entered into a twelve month construction loan with Columbian Bank for \$2,000,000 as partial financing of the construction project. As of March 31, 2001 and December 31, 2000, respectively, the note balance totaled \$1,393,873 and \$698,018. Upon final completion of the building construction project, management will either obtain permanent, long-term, financing or use internal funds to repay the construction loan.

Federal income taxes payable are due to deferred taxes established based on timing differences between income recognized for financial statements and taxable income for the Internal Revenue Service. These deferred taxes are based on the operations of FLAC and on unrealized gains of fixed maturities.

Results of Operations

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The Company completed a Kansas intra-state offering on January 11, 1999 raising total capital of approximately \$13,750,000. The offering, which commenced on March 11, 1997, provided capital to form a wholly owned life insurance subsidiary, First Life America Corporation ("FLAC"); form a venture capital subsidiary, First Capital Venture, Inc. ("FCVI") and provide working and acquisition capital. FLAC commenced insurance operations on a limited basis in November of 1998. In January of 1999, FLAC began full insurance operations. Until the marketing of life insurance began, the Company was in the development stage.

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Significant components of revenues include life insurance premiums, net of reinsurance, and net investment income. The following table provides information concerning premium income for the three months ended March 31, 2001 and 2000:

Modified payment whole life insurance:	2001	2000
	-----	-----
First year	\$232,306	\$366,023
Renewal	357,061	175,679
Term insurance:		
First year	3,810	-
	-----	-----
Gross premium income	593,177	541,702
Reinsurance premiums ceded	(24,795)	(15,311)
	-----	-----
Net premium income	\$568,382	\$526,391
	=====	=====

The Company's income earned from first year premiums on the modified payment whole life insurance policy decreased 36% from the three months ended March 31, 2000 to the three months ended March 31, 2001. This decrease is attributable primarily to the loss of three of FLAC's most experienced agents, which occurred after March 31, 2000. FLAC constantly recruits and trains new agents and provides continuous training and incentives for existing agents. As a result, management expects that other existing agents will soon be able to effectively replace the valuable resources which were lost. As compared to the three months ended March 31, 2000, greater renewal income was earned for the three months ended March 31, 2001 due to the aging of policy contracts in force. During the last twelve months, a significant portion of FLAC's policies reached their second and third renewal years.

During 2001, FLAC received \$3,810 in premium on its 10-year term product. FLAC began offering this product during 2000 to meet niche marketing needs. Management has not actively marketed and does not intend to actively market this product. It is typical in the insurance industry to reinsure a portion of the risk associated with life policies. The Company pays premiums to another company who assumes the risk. These premiums are a direct reduction of gross premium income. Reinsurance premiums totaled \$24,795 and \$15,311 for the quarters ended March 31, 2001 and 2000, respectively.

Net investment income increased 34% from March 31, 2000 to March 31, 2001. In 1999, the Company hired an investment manager to increase investment yields. During 2000 and 2001, short-term investments were converted to investments in

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available-for-sale fixed maturity investments, with higher yields. The invested asset mix, combined with a growing invested asset base, resulted in increased gross income from investments for the quarter ended March 31, 2001. Additionally, net investment income increased for the three months ended March 31, 2001 due to lower investment expenses. Currently, the Company manages its investment portfolio internally; however, the Company was paying an outside investment service to perform this function until September of 2000.

Benefits and expenses totaled \$638,116 and \$552,133 for the three months ended March 31, 2001 and 2000, respectively. Life insurance reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. As more life insurance is written and existing policies reach additional durations, it is reasonable for policy reserves to continue to increase. Commission expense is based on a percentage of premium and is determined in the product design. Commission expense decreased 28% from the quarter ended March 31, 2000 to March 31, 2001. This decrease is related to the decrease in first year premium income discussed above. Commissions as a percentage of premiums are substantially less on renewals than on first year premiums.

Acquisition costs which are related to the sale of insurance are capitalized and amortized over the premium paying period of the associated policies. These costs include commissions and management fees incurred in the first policy year. During the first quarters of 2001 and 2000, \$186,796, and \$290,089, respectively, of these costs were capitalized as deferred policy acquisition costs. The amortization of deferred acquisition costs for the same periods totaled \$55,762 and \$99,272, respectively. Salaries, wages and employee benefits increased 13% for the quarter ended March 31, 2001 as compared to the

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same period in 2000. Additional personnel were hired during the last three quarters of 2000 to facilitate growing life insurance operations. Included in miscellaneous taxes for each period is premium taxes, which are incurred as a percentage of premium collected and payable to the Kansas Insurance Department ("KID").

Administrative fees-related party are paid to First Alliance Corporation ("FAC"), a shareholder of the Company, for underwriting and accounting services. During the three months ended March 31, 2001 and 2000, respectively, these fees totaled \$35,729 and \$32,167 and were calculated based on a percentage of FLAC's premium income and annuity deposits collected.

The increase in other operating costs and expenses are due to increased operations of the Company.

Liquidity and Capital Resources

During the quarters ended March 31, 2001 and 2000, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity for fixed maturity investments. Net cash provided by operating activities during the periods ended March 31, 2001 and 2000 totaled \$140,064 and \$221,527, respectively. Cash provided by growing insurance operations during these periods is the primary reason for the positive cash flows from operating activities. Growing insurance operations also provided a larger invested asset base in each period presented, which contributed to additional cash flows from cash collected on interest income from investments.

FLAC's insurance operations generally receive adequate cash flows from premium collections and investment income to meet their obligations. Insurance policy

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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.

The Company is currently constructing a building to be used as the Company's home office. Management expects the final completion of the project to occur late this fall. The Company entered into a twelve month construction loan with Columbian Bank for \$2,000,000 as partial financing of the project. To obtain this financing, \$2,000,000 of short-term investments was pledged as collateral on the note. Cash flows used on the real estate project for the quarter ended March 31, 2001 totaled \$732,511, of which \$695,855 was financed with the \$2,000,000 construction loan and \$36,656 was financed with internal funds.

Approximately \$1,119,749 of costs will be incurred during the remainder of 2001 to complete the project. Over half of these costs will be financed with the construction loan, and the remainder will be financed with internal funds. Management does not foresee difficulty in meeting the future demands of this commitment.

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Part II.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit 3.2 By-laws as amended

(b) Form 8-K

The Company did not file any reports on Form 8-K during the three months ended March 31, 2001.

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SIGNATURES

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

First American Capital Corporation

(registrant)

Date May 10, 2001

Rickie D. Meyer, President

/s/ Rickie D. Meyer

Date May 10, 2001

Phillip M. Donnelly, Secretary/Treasurer

/s/ Phillip M. Donnelly
