FIRST AMERICAN CAPITAL CORP /KS
Form 10QSB
November 13, 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 September 30, 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

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 October 30, 2001

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

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2001 (Unaudited)	December 31, 2000
Investments:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost, $8,545,537 in 2001 and $6,023,296 in 2000)	$ 8,983,592	$ 6,241,820
Policy loans	31,707	5,990
Notes receivable (net of valuation allowance of $12,451 in 2001 and $18,414 in 2000)	20,587	30,262
Real estate held for investment	274,564	-
Short-term investments	2,061,837	4,437,280
Total investments	11,372,287	10,715,352
Cash and cash equivalents	480,960	832,485
Investments in related parties	41,800	16,800
Prepaid administrative fees - related party	25,121	-
Accrued investment income	150,544	148,487
Accounts receivable	119,010	93,167
Accounts receivable from affiliate	8,931	-
Deferred policy acquisition costs (net of accumulated		

amortization of $1,111,068 in 2001 and $800,619 in 2000)	1,715,240	1,272,554
Property and equipment, net of accumulated depreciation	3,262,956	1,283,522
Other assets	68,567	18,387
Total assets	$ 17,245,416	$ 14,380,754

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY	September 30, 2001	December 31, 2000
	(Unaudited)	
Policy and contract liabilities:		
Annuity contract liabilities	$ 1,203,122	$ 486,533
Life policy reserves	1,322,219	919,635
Liability for policy claims	-	22,306
Policyholder premium deposits	126,077	74,469
Deposits on pending policy applications	205,991	76,379
Reinsurance premiums payable	29,848	28,561
Total policy and contract liabilities	2,887,257	1,607,883
Commissions, salaries, wages and benefits payable	170,127	114,018
Other liabilities	172,922	28,811
Note payable	1,986,187	698,018
Accounts payable to affiliate	4,280	18,047
Federal income taxes payable:		
Deferred	575,400	361,403
Total liabilities	5,796,173	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	(1,420,627)	(1,176,785)
Accumulated other comprehensive income	284,737	144,226
Less: treasury shares held at cost (115,000 shares in 2001 and 2000)	(186,758)	(186,758)
Total shareholders' equity	11,449,243	11,552,574
Total liabilities and shareholders' equity	$ 17,245,416	$ 14,380,754

See notes to condensed consolidated financial statements.

	Three months ended September 30, 2001 (Unaudited)	Three months ended September 30, 2000 (Unaudited)	N... Septembe... 2001 (Unaudi...
Revenues			
Gross premium income	$ 594,226	$ 428,110	$ 1,77
Reinsurance premiums ceded	(12,109)	(17,731)	(6
Net premium income	582,117	410,379	1,70
Net investment income	167,349	176,077	54
Net realized gain on disposal of assets	5,699	1,251	
Rental income	57,426	-	5
Other income	3,430	2,666	1
Total revenue	816,021	590,373	2,32
Benefits and expenses			
Increase in policy reserves	151,053	108,909	40
Policyholder surrender values	17,000	5,683	3
Interest credited on annuities and premium deposits	22,325	6,400	5
Death claims	11,250	-	4
Commissions	236,282	226,513	57
Policy acquisition costs deferred	(312,973)	(271,595)	(75
Amortization of deferred policy acquisition costs	141,070	157,427	31
Salaries, wages, and employee benefits	283,057	206,811	70
Miscellaneous taxes	4,583	8,510	1
Administrative fees - related party	34,735	25,619	10
Other operating costs and expenses	381,965	128,154	93
Total benefits and expenses	970,347	602,431	2,43
Income (loss) before income tax expense	(154,326)	(12,058)	(11
Income tax expense	36,897	12,237	13
Net income (loss)	$ (191,223)	$ (24,295)	$ (24
Net income (loss) per common share - basic and diluted	$ (0.04)	$ -	$

See notes to condensed consolidated financial statements

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30, 2001	September 2000
	(Unaudited)	(Unaudite
Net income	($243,841)	$ 69,
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest credited on annuities and premium deposits	55,355	13,
Net realized investment gains	(4,574)	(1,
Provision for depreciation and amortization	53,319	11,
Amortization of premium and accretion of discount on fixed maturity and short-term investments	(15,730)	(7,
Interest credited to certificates of deposit balances	(39,308)	(46,
Realized net (gain) loss on disposal of assets	1,034	(2,
Provision for deferred federal income taxes	134,976	98,
Increase in prepaid administrative fees - related party	(25,121)	
Increase in accrued investment income	(2,057)	(49,
Increase in accounts receivable	(25,843)	(3,
Increase in accounts receivable from affiliate	(8,931)	
Increase in deferred policy acquisition costs, net	(442,686)	(484,
Increase in policy loans	(25,717)	(5,
(Increase) decrease in other assets	(50,180)	75,
Increase in policy reserves	402,584	420,
Decrease in liability for policy claims	(22,306)	
Increase (decrease) in deposits on pending policy applications	129,612	(40,
Increase in reinsurance premiums payable	1,287	14,
Increase in commissions, salaries, wages and benefits payable	56,109	46,
Increase (decrease) in accounts payable to affiliate	(13,767)	
Increase in other liabilities	144,110	
Net cash provided by operating activities	$ 58,325	$ 111,

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	September 30, 2001	September 30, 2000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES:		
Purchase of available-for-sale fixed maturities	($4,052,732)	($2,915,830)

Sale of available-for-sale fixed maturities	1,550,865	101,000
Additions to property and equipment, net	(2,033,788)	(438,315)
Purchase of real estate held for investment	(274,564)	-
Purchase of investments in affiliates	(25,000)	(16,800)
Changes in notes receivable, net	9,675	(14,471)
Short-term investments (acquired) disposed, net	2,414,682	2,605,274
Net cash used in investing activities	(2,410,862)	(679,142)
FINANCING ACTIVITIES:		
Proceeds from note payable	1,301,982	217,501
Payments on note payable	(13,812)	-
Deposits on annuity contracts, net	666,254	344,201
Purchase of treasury stock	-	(150,000)
Policyholder premium deposits, net	46,588	(6,407)
Net cash provided by financing activities	2,001,012	405,295
Decrease in cash and cash equivalents	(351,525)	(162,071)
Cash and cash equivalents, beginning of period	832,485	793,885
Cash and cash equivalents, end of period	$ 480,960	$ 631,814

See notes to condensed consolidated financial statements.

FIRT AMERICAN CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of First American Capital Corporation and its Subsidiaries (the "Company") for the three month and the nine month periods ended September 30, 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 period presentation.

2. SUBSIDIARY OPERATIONS

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 and nine month periods ending September 30, 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 September 30, 2001:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Special Revenue Bonds	$4,226,597	$ 182,578	-	$4,409,175
Corporate Bonds	3,958,940	255,477	-	4,214,417
Certificates of Deposit	360,000	-	-	8,623,592
	$8,545,537	$ 438,055	$ -	$8,983,592

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

FIRST AMERICAN CAPITAL CORPORATION
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 September 30, 2001, MCC had raised $850,000 from the sale of private placement shares and $563,300 from public offering shares. MCC has registered 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.

On August 16, 2001, the Company purchased, through a private placement, 250,000 shares of the common stock of Arkansas Security Capital Corporation ("ASCC") of Springdale, Arkansas for $25,000. At September 30, 2001, ASCC had raised $240,000 from the sale of private placement shares. ASCC will conduct another private placement of $600,000 in March of 2002. ASCC then plans to register an Arkansas intrastate public offering of $12,500,000. 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. Rickie D. Meyer, who is the Company's

President, will also serve as a Co-Chairman of the Board for ASCC.

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 has been constructed on approximately one-half of this land. Costs incurred to date at September 30, 2001 totaled $2,939,164, of which $357,675 was related to land cost and preparation, and $2,581,489 was related to building construction. Also included in total property of $2,939,164, is $37,810 of capitalized interest costs incurred on the construction loan. An additional $274,564 related to land cost and preparation has been reclassified to real estate held for investment.

On May 1, 2001, the Company relocated its home office to the newly constructed building. Effective July 1, 2001, the remaining 12,500 square feet of office space has been leased (2,500 square feet for six months and 10,000 square feet for five years).

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5. PROPERTY AND EQUIPMENT (CONTINUED)

The components of property and equipment as of September 30, 2001 are as follows:

	2001
Property (home office building)	$2,939,164
Less: Accumulated depreciation	(29,874)
Net property	2,909,290
Equipment	419,390
Less: Accumulated depreciation	(65,724)
Net equipment	353,666
Property and equipment, net	$3,262,956

6. 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 5). The note is callable on demand. The note will mature on July 15, 2016, unless called earlier. The note is 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 may, when an increase occurs in the interest rate, increase the amount of the monthly payment or increase the number of payments required. Interest is 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 will be recomputed at the end of 5 years and 10 years based on the current 5-year T-Bill rate. The company has incurred interest of $22,187 related to this note during 2001.

Required future principle payments are as follows:

Year	Principal Payment
2001	18,859
2002	78,484
2003	84,257
2004	90,086
2005	97,081
2006	104,223
Thereafter	1,513,197
Total	1,986,187

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 for the three and nine months ended September 30, 2001. For the three and nine months ended September 30, 2000, the weighted average outstanding common shares was 5,342,022 and 5,411,633, 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 September 30, 2001 and 2000 estimated Federal Income Tax expense was $133,535 and $103,560, respectively. The Federal Income Tax expense at September 30, 2001 included ($1,441) of current tax expense and $134,976 of deferred tax expense, and September 30, 2000 included $5,159 of current tax expense and $98,401 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 $515,800 for the nine months ended September 30, 2001 and $439,666 for the nine months ended September 30, 2000.

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 $103,716 and $91,698 of management fees during the nine months ended September 30, 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 September 30, 2001, such fees totaled $78,391. These fees have been offset by $3,512 of interest credited on the prepaid balance thus reducing the prepaid balance to $25,121.

10. COMPREHENSIVE INCOME

The components of comprehensive income (loss) along with the related tax effects are presented below for the three months and the nine months ended September 30, 2001 and 2000.

	Three months ended		Nine months ended	
	Sept 30	Sept 30	Sept 30	Sept 3
	2001	2000	2001	2000
Unrealized gain on available-for-sale securities:				
Unrealized holding gain during the period	$ 222,886	$ 58,892	$ 219,532	$ 55,37
Tax expense	(78,010)	(20,023)	(79,022)	(18,82
Other comprehensive income	$ 144,876	$ 38,869	$ 140,510	$ 36,54
Net income (loss)	$(191,223)	$(24,295)	$(243,841)	$ 69,77
Other comprehensive income net of tax effect:				
Unrealized investment gain	144,876	38,869	140,510	36,54
Comprehensive income (loss)	$ (46,347)	$ 14,574	$(103,331)	$106,32

Net income (loss) per common share-basic and diluted	$ (0.01)	$ 0.00	$ (0.02)	$ 0.0

11. SEGMENT INFORMATION

The operations of the Company and its subsidiaries have been classified into two operating segments as follows: life and annuity insurance operations and corporate operations. Segment information as of September 30, 2001 and December 31, 2000 and for the three months and the nine months ended September 30, 2001 and 2000 is as follows:

	Three months ended		Nine months end	
	September 30, 2001	September 30, 2000	September 30, 2001	Sept
Revenues				
Life and annuity insurance operations	$ 665,416	$ 474,982	$ 1,948,864	$
Corporate operations	150,605	115,391	376,756	
Total	$ 816,021	$ 590,373	$ 2,325,620	$
Income/(loss) before income taxes:				
Life and annuity insurance operations	$ 121,938	$ 68,093	$ 381,669	$
Corporate operations	(276,264)	(80,151)	(491,975)	
Total	$ (154,326)	$ (12,058)	$ (110,306)	$
Depreciation and amortization expense:				
Life and annuity insurance operations	$ 141,070	$ 144,976	$ 310,449	$
Corporate operations	30,090	4,245	53,319	
Total	$ 171,160	$ 149,221	$ 363,768	$

Segment asset information as of September 30, 2001 and December 31, 2000.

	2001	2000
Assets:		
Life and annuity insurance operations	$ 7,876,455	$ 6,024,504
Corporate operations	9,368,961	8,356,250
Total	$17,245,416	$14,380,754

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12. MATERIAL COMMITMENTS

During 2001, the Company completed construction on 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 $2,939,164 upon completion of the project. Of these estimated total costs, $2,939,164 has been incurred at September 30, 2001, leaving no remaining costs.

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 September 30, 2001 are highlighted below.

Total assets increased from $14,380,754 at December 31, 2000 to $17,245,416 at September 30, 2001. The Company's available-for-sale fixed maturities had a fair value of $8,983,592 and amortized cost of $8,545,537 at September 30, 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 nine months of 2001. This change caused a $2.4 million decrease (54%) in short-term investments and an increase of $2.7 million (44%)

in the Company's fixed maturities portfolio from 2000 to 2001.

In conjunction with the construction of a new office building, the Company has classified the unused portion of the land and the related costs to Real Estate Held for Investment. At September 30, 2001, the balance of this account was $274,564.

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 September 30, 2001, fees in the amount of $78,391 were incurred (offset by $3,512 in interest income), reducing the prepaid balance to $25,121.

Deferred policy acquisition costs, net of amortization, increased 35% from $1,272,554 at December 31, 2000 to $1,715,240 at September 30, 2001 resulting from 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.

Property and equipment increased to $3,262,956 at September 30, 2001 from $1,283,522 at December 31, 2000.
The increase is primarily due to the construction of the Company's new office building. Costs associated with the building have increased $1.7 million since December 31, 2000. The remaining increase in property and equipment is a result of the purchase of new office equipment, furniture, and software.

Liabilities increased to $5,796,173 at September 30, 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 44% 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 $716,589 (147%) for annuity contract liabilities from December 31, 2000 to September 30, 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 nine 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.

Other liabilities increased to $172,922 at September 30, 2001 from $28,811 at December 31, 2000. The increase of $144,111 is primarily due to the accrual of $118,000 in construction invoices related to the new office building.

On July 20, 2001, the Company entered into a $2 million promissory note with Columbian Bank and Trust Company. The note matures on July 15, 2016 with a stated interest rate of the 5-year T-Bill (currently 4.400%) plus a margin of 2.600 percentage points. The note was made to finance the new office building, which serves as collateral for the note. The company has incurred interest of $22,187 related to this note during 2001.

Federal income taxes payable have increased 59% from $361,403 at December 31, 2000 to $575,400 at September 30, 2001. 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

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.

Revenues for the three months ended September 30, 2001 totaled $816,021 as compared to $590,373 for the same period of 2000. The increase of $225,648 is primarily due to an increase in net premium income ($171,738) and an increase in rental income ($57,426). Benefits and expenses for the three months ended September 30, 2001 totaled $970,347 as compared to $602,431 for the same period of 2000. The total increase in benefits and expenses are $367,916 or 61%. Other operating costs accounted for $253,811 of the total increase. These increased costs reflect increases in depreciation, interest expense, building expenses, and advertising. Salaries and wages increased $76,246 during the same period of 2000 as a result of an increase in the number of employees. The increase in total revenue also results in increased expenses for the period.

Revenues for the nine months ended September 30, 2001 increased $324,905 (16%) from $2,000,715 at September 30, 2000 as compared to $2,325,620 for the same period of 2001. Greater revenues are due to a $213,894 (14%) increase in net premium income and an increase in rental income ($57,426). Benefits and expenses for the nine months ended September 30, 2001 totaled $2,435,926 as compared to $1,827,383 for the same period of 2000. The total increase in benefits and expenses are $608,543 or 33%. These increased costs reflect increases in depreciation, interest expense, building expenses, and advertising. Salaries and wages increased $156,260 during the same period of 2000 as a result of an increase in the number of employees. The increase in total revenue also results in increased expenses for the period.

Liquidity and Capital Resources

During the quarters ended September 30, 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 September 30, 2001 and 2000 totaled $58,325and $111,776 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 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 has been constructing a building to be used as the Company's home office. The Company occupied the new building on May 1, 2001. The Company entered into a note payable with Columbian Bank for $2,000,000 to finance the project. To obtain this financing, the building and property were pledged as collateral on the note. Cash flows used on the real estate project for the nine months ended September 30, 2001 totaled approximately $1.6 million.

Item 6. Exhibits and Reports on Form 8-K

The Company did not file any reports on Form 8-K during the nine months ended September 30, 2001.

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 11/07/01 /s/ Rickie D. Meyer
Rickie D. Meyer, President

Date 11/07/01 /s/ Phillip M. Donnelly
Phillip M. Donnelly, Secretary/Treasurer