FIRST AMERICAN CAPITAL CORP /KS
Form 10QSB
August 12, 2004

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2004.

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________.

Commission file number : 0-25679

FIRST AMERICAN CAPITAL CORPORATION
(Exact Name of small business issuer in its charter)

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

1303 S.W. First American Place Topeka, Kansas 66604
(Address of principal executive offices)

Issuer's telephone number (785) 267-7077

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

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

Common Stock, $.10 Par Value - 4,687,078 shares as of August 1, 2004

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

FIRST AMERICAN CAPITAL CORPORATION

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS	June 30, 2004	December 31, 2003
Investments:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost, $6,788,398 in 2004 and $11,432,605 in 2003)	$ 6,860,745	$12,032,106
Equity securities (cost of $44,150 in 2004 and $41,800 in 2003)	45,550	41,800
Investments in real estate	274,564	274,564
Policy loans	69,617	60,451
Notes receivable (net of valuation allowance of $0 in 2004 and 2003)	--	13,741
Short-term investments	3,082,423	460,593
Total investments	10,332,899	12,883,255
Cash and cash equivalents	4,020,180	397,789
Investments in related parties	43,853	65,200
Accrued investment income	102,256	181,069
Accounts receivable	246,423	296,366
Deferred policy acquisition costs (net of accumulated amortization of $2,697,484 in 2004 and $2,312,021 in 2003)	4,264,882	4,010,959
Property and equipment (net of accumulated depreciation of $438,918 in 2004 and $383,199 in 2003)	2,785,517	2,836,814
Other assets	31,302	7,648
Total assets	$21,827,312	$20,679,100

See notes to condensed consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY	Unaudited June 30, 2004
Policy and contract liabilities:	
Future annuity benefits	$ 5,946,317
Future policy benefits	3,666,931
Liability for policy claims	62,898
Policyholder premium deposits	198,796
Deposits on pending policy applications	4,832
Reinsurance premiums payable	27,315

Total policy and contract liabilities	9,907,089
Commissions, salaries, wages and benefits payable	70,165
Other liabilities	212,879
Note payable	1,817,698
Deferred federal income taxes payable	632,851
Total liabilities	12,640,682
Shareholders' equity:	
Common stock, $.10 par value, 8,000,000 shares authorized; 5,449,578 shares issued and 4,687,078 shares outstanding in 2004 and 2003	544,958
Additional paid in capital	12,380,523
Accumulated deficit	(2,416,878)
Accumulated other comprehensive income	63,510
Less: Treasury stock held at cost (762,500 shares in 2004 and 2003)	(1,385,483)
Total shareholders' equity	9,186,630
Total liabilities and shareholders' equity	$ 21,827,312

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three months ended		(Una Six mo
	June 30, 2004	June 30, 2003	June 30, 2004
Revenues:			
Gross premium income	$ 797,102	$ 904,641	$ 1,881,496
Reinsurance premiums assumed	4,198	2,332	5,380
Reinsurance premiums ceded	(25,471)	(29,848)	(73,081)
Net premium income	775,829	877,125	1,813,795
Net investment income	89,575	143,281	211,978
Net realized investment gain (loss)	(2)	--	464,361
Rental income	45,498	53,856	90,995
Other income	38	--	38
Total revenue	910,938	1,074,262	2,581,167
Benefits and expenses:			
Increase in policy reserves	169,424	198,406	538,440

Policyholder surrender values	30,589	13,450	52,303
Interest credited on annuities and premium deposits	83,591	72,209	160,039
Death claims	54,887	64,387	136,509
Commissions	241,735	321,073	534,989
Policy acquisition costs deferred	(295,915)	(386,806)	(639,386)
Amortization of deferred policy acquisition costs	191,507	134,807	385,463
Salaries, wages, and employee benefits	285,175	285,656	554,623
Miscellaneous taxes	76,740	59,586	107,186
Other operating costs and expenses	314,019	733,764	601,831
Total benefits and expenses	1,151,752	1,496,532	2,431,997
Income (loss) before income tax expense	(240,814)	(422,270)	149,170
Income tax expense (benefit)	(19,300)	(500,668)	3,209
Net income (loss)	$ (221,514)	$ 78,398	$ 145,961
Net income (loss) per common share - basic and diluted	$ (0.05)	$ 0.02	$ 0.03

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited) Three months ended	
	June 30, 2004	June 30 2003
Net income (loss)	$(221,514)	$ 78,39
Unrealized gain (loss) on available-for-sale securities:		
Unrealized holding gain (loss) during the period	(131,382)	153,26
Less: Reclassification for gains (losses) included in net income	(2)	-
Tax benefit	26,923	71,60
Other comprehensive income (loss)	(104,457)	224,86
Comprehensive income (loss)	$(325,971)	$ 303,26

Comprehensive income (loss) per common share-basic and diluted	$ (0.07)	$ 0.0

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) June 30, 2004	(Unaudited) June 30, 2003
OPERATING ACTIVITIES:		
Net income	$ 145,961	$ 21,119
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Interest credited on annuities and premium deposits	160,039	72,977
Net realized investment gain	(464,361)	(341)
Provision for depreciation	55,720	62,968
Equity loss in investment in affiliate	21,347	23,036
Amortization of premium and accretion of discount on fixed maturity and short-term investments	70,839	31,997
Provision for deferred federal income taxes	3,209	(356,535)
Decrease (increase) in accrued investment income	78,813	(5,279)
Decrease (increase) in accounts receivable	49,943	(70,021)
Increase in deferred policy acquisition costs, net	(253,923)	(636,860)
Increase in policy loans	(9,166)	(11,495)
Increase in other assets	(23,654)	(9,539)
Increase in future policy benefits	538,440	477,891
Decrease in liability for policy claims	(45,120)	(42,905)
Decrease in deposits on pending policy applications	(27,659)	(174,599)
Decrease in reinsurance premiums payable	(4,398)	(2,418)
Increase (decrease) in commissions, salaries, wages and benefits payable	17,150	(32,536)
Increase in other liabilities	38,602	295,596
Net cash provided by (used in) operating activities	$ 351,782	$(356,944)

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	(Unaudited) June 30, 2004	(Unaudited) June 30, 2003
INVESTING ACTIVITIES:		
Purchase of available-for-sale fixed maturities	$(3,277,041)	$(1,411,182)
Sale or maturity of available-for-sale fixed maturities	8,325,444	725,000
Purchase of available-for-sale equity securities	(2,350)	--
Additions to property and equipment	(4,423)	(12,441)
Purchase of investments in affiliate	--	(10,000)
Payments on notes receivable	13,741	4,845
Purchases of short-term investments	(2,826,782)	--
Sale or maturity of short-term investments	200,000	325,000
Net cash provided by (used in) investing activities	2,428,589	(378,778)
FINANCING ACTIVITIES:		
Payments on note payable	(25,309)	(21,286)
Deposits on annuity contracts	1,002,409	971,263
Surrenders on annuity contracts	(111,574)	(51,300)
Policyholder premium deposits	3,721	37,410
Withdrawals on policyholder premium deposits	(27,227)	(24,352)
Net cash provided by financing activities	842,020	911,735
Increase in cash and cash equivalents	3,622,391	176,013
Cash and cash equivalents, beginning of period	397,789	400,062
Cash and cash equivalents, end of period	$ 4,020,180	$ 576,075
SUPPLEMENTAL DISCLOSURE OF CASH ACTIVITIES:		
Interest paid	$ 55,893	$ 66,798
Income taxes paid	$ --	$ --

See notes to condensed consolidated financial statements.

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 six month periods ended June 30, 2004 and 2003 are unaudited. However, in the opinion of the Company, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been reflected therein.

Certain financial information which is normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but which is not required for interim reporting purposes, has been omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the fiscal year ended December 31, 2003. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

2. INVESTMENTS IN RELATED PARTIES

The Company owns a 50% interest in First Computer Services, LLC ("FCS"). FCS owns the computer hardware and software that operates the Company's policy administration, underwriting, claim processing, and accounting system. The company uses the equity method to account for this investment, which is owned jointly by the Company and First Alliance Corporation ("FAC") of Lexington, Kentucky. As of June 30, 2004 and December 31, 2003, the carrying value of the FCS investment was $43,853 and $65,200, respectively. The current year amount represents an investment of $146,500 reduced by cumulative net operating losses totaling $102,647. Selected financial data for FCS for the period ended June 30, 2004 is listed below.

Total Assets:	$ 87,705
Total Liabilities:	0
Total Liabilities and Equity:	87,705
Loss from Operations:	(42,694)

3. NET EARNINGS 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 period. The weighted average number of common shares outstanding was 4,687,078 for the three months and six months ended June 30, 2004 and 2003, respectively.

4. FEDERAL INCOME TAXES

Current taxes are provided based on estimates of the projected effective annual tax rate. Deferred taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has elected to file a consolidated federal income tax return with its subsidiary, First Life America Corporation ("FLAC") commencing with the year ended December 31, 2003. FLAC is taxed as a life insurance company under the provisions of the Internal Revenue Code and had to file a separate tax return for its initial five years of existence.

5. COMMITMENTS AND CONTINGENCIES

On November 12, 2003, the Company filed a petition in the District Court of Shawnee County, Kansas asserting claims against Rickie D. Meyer, the Company's former President, arising, in part, out of Mr. Meyer's employment with the Company. Among other things, the Company is seeking to recover expense reimbursements previously paid to Mr. Meyer and Company funds allegedly misappropriated by Mr. Meyer. In this regard, the petition alleges that

5. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Mr. Meyer abused Company policies related to claiming business - related expense reimbursements by submitting expense reports for goods and services purchased for personal use. The petition further alleges that Mr. Meyer misappropriated funds from the Company by fraudulently altering a check made payable to the Company. The Company is also seeking to have Mr. Meyer reimburse it for the amount it paid another insurance company in settlement of a claim. On August 8, 2003, the Company settled a claim that it had breached various marketing agreements with AF&L, a long-term care insurance company, and certain of its affiliates, through the payment to AF&L of $150,000 plus $15,000 in attorney fees. The petition asserts that Mr. Meyer entered into the marketing agreements despite knowing that the Company could not perform on the financial requirements of the agreements and without the knowledge, approval or authorization of the Company's Board of Directors as required by the agreements.

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

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

6. SEGMENT INFORMATION

The operations of the Company and its subsidiaries have been classified into two operating segments as follows: life and annuity insurance operations and corporate operations. Segment information for the three months and six months ended June 30, 2004 and 2003 and as of June 30, 2004 and December 31, 2003 is as follows:

	Three months ended		Six mon
	June 30, 2004	June 30, 2003	June 30, 2004

Revenues:			
Life and annuity insurance operations	$ 867,026	$ 989,969	$ 2,283,736
Corporate operations	43,912	84,293	297,431
Total	$ 910,938	$ 1,074,262	$ 2,581,167
Income (loss) before income taxes:			
Life and annuity insurance operations	$ 6,738	$ (3,432)	$ 395,118
Corporate operations	(247,552)	(418,838)	(245,948)
Total	$ (240,814)	$ (422,270)	$ 149,170
Depreciation and amortization expense:			
Life and annuity insurance operations	$ 191,507	$ 134,807	$ 385,463
Corporate operations	27,948	31,590	55,720
Total	$ 219,455	$ 166,397	$ 441,183

	June 30, 2004
Assets:	
Life and annuity insurance operations	$16,611,849
Corporate operations	5,215,463
Total	$21,827,312

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

Financial Condition

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

Total assets increased from $20,679,100 at December 31, 2003 to $21,827,312 at June 30, 2004. The Company's available-for-sale fixed maturity securities had a fair value of $6,860,745 and $12,032,106 at June 30, 2004 and December 31, 2003, respectively. This investment portfolio is reported at market value with unrealized gains and losses, net of applicable deferred taxes, reflected as a separate component of accumulated other comprehensive income. The decrease in available-for-sale fixed maturity securities is attributable to the sale of a significant portion of the Company's bond portfolio during the first of quarter of 2004. The bonds were sold in an attempt to realize market gains and to reinvest the resulting assets using a new investment strategy. The new strategy is focused primarily on matching investment maturities to the anticipated cash needs of the Company, but also attempts to match the investment mix to others within the Company's industry peer group.

Short-term investments increased $2,621,830 from $460,593 at December 31, 2003 to $3,082,423 at June 30, 2004. The increase is due to the sale of a significant portion of the Company's bond portfolio during the first quarter of 2004. Proceeds resulting from the bond sales were temporarily reinvested in short-term securities with maturities ranging from 30 to 120 days. As these short term securities mature, the resulting proceeds will be reinvested in conjunction with the new investment strategy.

Cash and cash equivalents increased to $4,020,180 at June 30, 2004 from $397,789 at December 31, 2003. Refer to the statement of cash flows for sources and uses of cash.

Accrued investment income decreased $78,813 or 44% from $181,069 at December 31, 2003 to $102,256 at June 30, 2004. The decrease in accrued investment income is attributable to the sale of a significant portion of the bond portfolio during the first quarter of 2004.

Accounts receivable decreased 17% from $296,366 at December 31, 2003 to $246,423 at June 30, 2004. The decrease is primarily due to a $5,900 decrease in amounts due from agents, a $23,059 decrease in due premiums, and a $21,089 decrease in income tax recoverable. These amounts are expected to be fully recoverable.

Deferred policy acquisition costs, net of amortization, increased 6% from $4,010,959 at December 31, 2003 to $4,264,882 at June 30, 2004 resulting from the capitalization of acquisition expenses related to the sales of life insurance. These acquisition expenses include commissions on first year business, medical exam and inspection report fees, and salaries of employees directly involved in the marketing, underwriting and policy issuance functions.

Property and equipment net of accumulated depreciation decreased by 2% from $2,836,814 at December 31, 2003 to $2,785,517 at June 30, 2004. The decrease is attributable to depreciation expense of $55,720 and capitalization of assets of $4,423.

Liabilities increased to $12,640,682 at June 30, 2004 from $11,249,639 at December 31, 2003. A significant portion of this increase is attributable to future policy and annuity benefits related to sales of the Company's various life insurance products. Reserves for future policy benefits established due to the sale of life insurance increased $538,440 or 17% from December 31, 2003 to June 30, 2004. These reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. Reserves for future annuity benefits increased $1,046,547 or 21% from December 31, 2003 to June 30, 2004. According to the design of the Company's FA2000 product, first year premium payments are allocated 100% to life insurance and renewal payments are split 50% to life and 50% to annuity. In 2004, annuity contract liabilities increased as additional policies reached the second policy year and the renewal policy base grew larger.

Deferred federal income taxes payable decreased to $632,851 at June 30, 2004 from $760,881 at December 31, 2003. Federal income taxes payable are due to deferred taxes established based on timing differences between income recognized for financial statement purposes and taxable income for the Internal Revenue Service. These deferred taxes are based on the operations of the Company and FLAC and on unrealized gains of fixed maturity securities. The decrease in deferred taxes payable is primarily attributable to the sale of a significant portion of the Company's bond portfolio during the first quarter of 2004, thus reducing the amount of unrealized gains present in such portfolio at June 30, 2004.

Results of Operations

Significant components of revenues include life insurance premiums, net of reinsurance, net investment income, and net realized investment gain. The following table provides information concerning net premium income for the three months and six months ended June 30, 2004 and 2003:

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Whole life insurance:				
First year	$ 196,123	$ 368,580	$ 483,105	$ 923,421
Renewal	587,691	524,809	1,381,383	1,168,269
Term insurance:				
First year	310	465	940	465
Renewal	12,278	8,587	13,748	10,657
Single premium	700	2,200	2,320	5,600
Gross premium income	797,102	904,641	1,881,496	2,108,412
Reinsurance premiums assumed	4,198	2,332	5,380	3,070
Reinsurance premiums ceded	(25,471)	(29,848)	(73,081)	(74,861)
Net premium income	$ 775,829	$ 877,125	$ 1,813,795	$ 2,036,621

Net premium income decreased $222,826 or 11% from the six months ended June 30, 2003 to the same period during 2004. Total first year whole life premium decreased $440,316 or 48% from 2003 to 2004. Total renewal year whole life premium increased $213,114 or 18% from 2003 to 2004. First year whole life premiums collected on the Company's FA2000 product have decreased as a result of the disruptive affect of the Company's 2003 proxy contest on its customers, shareholders and its marketing agents used to market the Company's FA2000 product. The Company anticipates the reduction in FA2000 production will continue through the remainder of 2004. The decrease in FA2000 production has been partially offset by an increase in production of the Company's Final Expense product. Management is presently reviewing its product portfolio in an effort to manage production to both the needs and capacity of the Company.

Net premium income decreased $101,296 or 12% from the three months ended June 30, 2003 to the same period during 2004. Total first year whole life premium decreased $172,457 or 47% from 2003 to 2004. Total renewal year whole life premiums increased $62,882 or 12% from 2003 to 2004.

Net investment income decreased $75,176 or 26% from the six months ended June 30, 2003 to the same period during 2004 and decreased $53,706 or 37% from the three months ended June 30, 2003 to the same period during 2004. During the first quarter of 2004 the Company sold a significant portion of its bond portfolio in order to realize market gains and reinvest the resulting proceeds using a new investment strategy. The proceeds from the sale were used to purchase short-term securities with maturities ranging from 30 to 120 days. As these short term securities mature, the proceeds will be reinvested in conjunction with the new investment strategy. During 2003 excess cash was used to purchase available-for-sale fixed maturity investments, with lower yields as compared to bonds that have been purchased in prior years. The decrease in yields from the purchases of short term securities in 2004 and the purchases of lower yielding bonds in 2003 resulted in the decrease in net investment income for the six month and three month periods ended June 30, 2004.

Net realized investment gain increased $464,020 from the six months ended June 30, 2003 to the same period during 2004. The increase is attributable to the sale of a significant portion of the Company's bond portfolio during 2004. Gains totaling $464,363 were realized upon the sale of these bonds.

Rental income decreased from $107,712 during the six months ended June 30, 2003 to $90,995 during the same period in 2004 and decreased from $53,856 during the three months ended June 30, 2003 to $45,498 during the same period in

2004. Rental income is earned by leasing approximately 12,500 square feet of office space in the home office building. The Company has executed a 10 year inclusive non cancelable lease on 10,000 square feet of the office space. The decrease in rental income resulted from a month to month lease for the remaining 2,500 square feet of available office space being cancelled in December of 2003. The space is currently on the market for lease.

Benefits and expenses totaled $2,431,997 and $2,767,244 during the six months ended June 30, 2004 and 2003, respectively. Included in total benefits and expenses were policy reserve increases of $538,440 and $477,891 during the six months ended June 30, 2004 and 2003, respectively. Benefits and expenses totaled $1,151,752 and $1,496,532 during the three months ended June 30, 2004 and 2003, respectively. Included in total benefits and expenses were policy reserve increases of $169,424 and $198,406 during the three months ended June 30, 2004 and 2003, respectively. Life insurance reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. As more life insurance is written and existing policies reach additional durations, policy reserves will continue to increase.

Commission expense totaled $534,989 and $729,741 for the six months ended June 30, 2004 and 2003, respectively and $241,735 and $321,073 for the three months ended June 30, 2004 and 2003, respectively. Commission expense is based on a percentage of premium and is determined in the product design. Additionally, higher percentage commissions are paid for first year business than renewal year. The decrease in commission expense is directly related to the decrease in first year premium income during the six months ended June 30, 2004.

Acquisition costs related to the sale of insurance are capitalized and amortized over the life of the associated policies. These costs include commissions on first year business, medical exams and inspection report fees, and salaries of employees directly involved in the marketing, underwriting and policy issuance functions. During the six months ended June 30, 2004 and 2003, $639,386 and $858,277, respectively, of these costs had been capitalized as deferred policy acquisition costs. The related amortization for the same periods totaled $385,463, and $221,417, respectively. During the three months ended June 30, 2004 and 2003, $295,915 and $386,806, respectively, of these costs had been capitalized as deferred policy acquisition costs. The related amortization for the same periods totaled $191,507, and $134,807, respectively.

Salaries, wages and employee benefits decreased from $680,873 during the six months ended June 30, 2003 to $554,623 during the same period in 2004. The decrease during 2004 is primarily attributable to the decrease in employee headcount during the six months ended June 30, 2004 in comparison to the same period in 2003. Included in the decrease was a $37,427 decrease in incentive compensation resulting from the Company opting not to renew the employment contracts of prior executive management.

Other operating costs and expenses totaled $601,831, and $1,148,522 for the six months ended June 30, 2004 and 2003, respectively. Significant components of the $546,691 decrease from 2003 to 2004 include the following: decrease in office expenses of $53,032; decrease in annual meeting expenses of $103,898; decrease in settlement expenses of $165,000; decrease in director fees of $39,260; decrease in travel, meals, lodging and entertainment expenses of $15,347; decrease in ABM fees of $19,584; decrease in professional fees of $104,152; decrease in agency expenses of $20,696. Other operating costs and expenses totaled $314,019, and $733,764 for the three months ended June 30, 2004 and 2003, respectively. Significant components of the $419,745 decrease from 2003 to 2004 include the following: decrease in office expenses of $11,318; decrease in annual meeting expenses of $103,898; decrease in settlement expenses of $165,000; decrease in ABM fees of $7,353; decrease in professional fees of $97,241; decrease in agency expenses of $5,951. The significant decrease in other operating costs is due to the implementation of tighter controls over expenses and the reduction of expenses associated with the 2004 annual meeting as compared to the 2003 annual meeting, proxy contest and litigation surrounding such contest.

Liquidity and Capital Resources

During the quarters ended June 30, 2004 and 2003, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity to purchase fixed maturity and short-term investments. Net cash provided by (used in) operating activities during the six months ended June 30, 2004 and 2003 totaled $351,782 and $(356,944), respectively.

FLAC generally receives adequate cash flow from premium collections and investment income to meet the obligations of its insurance operations. Insurance policy liabilities are primarily long-term and generally are paid from future cash flows. Cash collected from deposits on annuity contracts and policyholder premium deposits are recorded as cash flows from financing activities. A significant portion of the Company's invested assets are readily marketable and highly liquid.

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

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

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ITEM 3. CONTROLS AND PROCEDURES

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the Company's disclosure controls and procedures were effective.

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

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PART II

OTHER INFORMATION

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

The Company attempted to hold its regularly scheduled annual meeting of shareholders on June 7, 2004 for the purpose of electing directors and ratifying the appointment of independent auditors. However, shareholder attendance (in person and by proxy) did not constitute quorum to transact business pursuant to the Company's bylaws. Therefore, the meeting was adjourned to July 6, 2004. Again, a quorum was not obtained at the July 6 continuation of the annual meeting and no business was transacted. Accordingly, the following existing directors remain in office: Thomas Fogt; Paul E. "Bud" Burke, Jr.; Harland E. Priddle; Gary E. Yager; Edward C. Carter; Kenneth L. Frahm; John G. Montgomery; and Stephen J. Irsik. In addition, those directors appointed John Van Engelen, President/CEO of the Company, to the board of directors.

ITEM 6. Exhibits and Reports on Form 8-K

a) Index to Exhibits

Exhibit No.	Description
3.1	Articles of Incorporation of First American Capital Corporation (Incorporated by reference from Exhibit 2.1 to the Registrant's amended Form 10-SB filed August 13, 1999)
3.2	Bylaws of First American Capital Corporation, as amended (Incorporated by reference from Exhibit 3.2 to the Registrant's Form 10-KSB filed March 31, 2003)
4	Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations, and Restrictions Thereof of 6% Non-Cumulative, Convertible, Callable Preferred Stock (Incorporated by reference from Exhibit 3 to the Registrant's amended Form 10-SB filed August 13, 1999)
10.1	Form of Advisory Board Contract (Incorporated by reference from Exhibit 6.2 to the Registrant's amended Form 10-SB filed August 13, 1999)
10.2	Service Agreement effective January 1, 2002 between First American Capital Corporation and First Life America Corporation (Incorporated by reference from Exhibit 10.3 to the Registrant's Form 10-KSB filed March 31, 2003)
10.3	Operating Agreement of First Computer Services, LLC dated December 1, 2001 (Incorporated by reference from Exhibit 10.10 to the Registrant's Form 10-KSB filed March 31, 2003)
10.4	Automatic Umbrella and Bulk ADB Reinsurance Agreements effective September 1, 1998 between First Life America Corporation and Business Men's Assurance Company of America (Incorporated by reference from Exhibit 6.8 to the Registrant's Form 10-SB filed August 13, 1999)
10.5	Employment Agreement effective February 16, 2004 between First American Capital Corporation and John F. Van Engelen (Incorporated by reference from Exhibit 10.5 to the Registrant's Form 10-KSB filed March 29, 2004)
10.6	Intercompany Tax Sharing Agreement dated December 31, 2003 between First American Capital Corporation and First Life America Corporation (Incorporated by reference from Exhibit 10.6 to the Registrant's Form 10-KSB filed March 29, 2004)

ITEM 6. Exhibits and Reports on Form 8-K (CONTINUED)

Exhibit No.	Description
21	Subsidiaries of First American Capital Corporation (Incorporated by reference from Exhibit 21 to the Registrant's Form 10-KSB filed March 31, 2003)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*)
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

b) Reports on Form 8-K

The Company filed a current report on Form 8-K dated April 15, 2004 announcing the change in the Company's independent accountants from Kerber, Eck and Braeckel LLP to BKD, LLP.

The Company filed a current report on Form 8-K dated June 10, 2004 announcing the mailing of a newsletter to its shareholders regarding the status of its Annual Shareholders' Meeting held on June 7, 2004.

Subsequent to the quarter ended June 30, 2004, the Company filed a current report on Form 8-K dated July 9, 2004 announcing the issuance of a news release regarding the appointment of the Company's directors and officers effective July 6, 2004.

Subsequent to the quarter ended June 30, 2004, the Company filed a current report on Form 8-K dated July 15, 2004 announcing the issuance of a newsletter to its shareholders regarding the recent actions by Brooke Corporation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST AMERICAN CAPITAL CORPORATION

Date: 8/12/04	By: /s/ John F. Van Engelen
	John F. Van Engelen President and Chief Executive Officer
Date: 8/12/04	By: /s/ Patrick A. Tilghman
	Patrick A. Tilghman Treasurer and Chief Financial Officer