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FIRST AMERICAN CAPITAL CORP /KS  
Form 10QSB  
May 16, 2005

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2005.

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .  
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Commission file number: 0-25679

FIRST AMERICAN CAPITAL CORPORATION  
-----

(Exact Name of small business issuer in its charter)

Kansas  
-----  
(State of incorporation)

48-1187574  
-----  
(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  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-- 4,237,578 shares as of May 1, 2005

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

FIRST AMERICAN CAPITAL CORPORATION

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	(Unaudited) March 31, 2005	D
	-----	-----
Investments:		
Securities available-for-sale, at fair value:		
Fixed maturities (amortized cost, \$13,228,128 in 2005 and \$13,206,486 in 2004)	\$ 13,264,284	\$
Equity securities (cost of \$235,400 in 2005 and \$235,400 in 2004)	217,078	
Investments in real estate	274,564	
Policy loans	97,346	
Mortgage loans on real estate	647,151	
Other investments	423,173	
	-----	-----
Total investments	14,923,596	
Cash and cash equivalents	877,082	
Accrued investment income	207,985	
Accounts receivable	326,503	
Deferred policy acquisition costs (net of accumulated amortization of \$3,277,764 in 2005 and \$3,081,632 in 2004)	4,643,065	
Property and equipment (net of accumulated depreciation of \$710,168 in 2005 and \$668,821 in 2004)	2,735,047	
Other assets	12,877	
	-----	-----
Total assets	\$ 23,726,155	\$
	=====	=====

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) March 31, 2005	D
	-----	-----
Policy and contract liabilities:		
Future annuity benefits	\$ 7,738,041	\$
Future policy benefits	4,561,051	

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Liability for policy claims	114,606
Policyholder premium deposits	187,290
Deposits on pending policy applications	12,536
Reinsurance premiums payable	21,072
Total policy and contract liabilities	12,634,596
Commissions, salaries, wages and benefits payable	114,740
Other liabilities	270,722
Notes payable	2,342,901
Deferred federal income taxes payable	567,429
Total liabilities	15,930,388
Shareholders' equity:	
Common stock, \$.10 par value, 8,000,000 shares authorized; 5,449,578 shares issued and 4,237,578 shares outstanding in 2005; and 5,449,578 issued and 4,688,078 shares outstanding in 2004	544,958
Additional paid in capital	12,416,181
Accumulated deficit	(3,027,096)
Accumulated other comprehensive income	15,745
Less: Treasury stock held at cost (1,212,000 shares in 2005 and 761,500 in 2004)	(2,154,021)
Total shareholders' equity	7,795,767
Total liabilities and shareholders' equity	\$ 23,726,155

See notes to condensed consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited)	
	Three months ended	
	March 31, 2005	March 31, 2004
	-----	-----
Revenues:		
Gross premium income	\$ 1,156,197	\$ 1,084,394
Reinsurance premiums assumed	2,035	1,182
Reinsurance premiums ceded	(45,776)	(47,610)
Net premium income	1,112,456	1,037,966
Net investment income	189,933	122,403
Net realized investment gain (loss)	(1,669)	464,363
Rental income	45,780	45,498

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Total revenue	1,346,500	1,670,230
Benefits and expenses:		
Increase in policy reserves	411,748	369,016
Policyholder surrender values	49,609	21,714
Interest credited on annuities and premium deposits	85,826	76,448
Death claims	72,556	81,622
Commissions	300,960	293,254
Policy acquisition costs deferred	(322,203)	(343,471)
Amortization of deferred policy acquisition costs	196,132	193,956
Salaries, wages, and employee benefits	315,040	269,448
Miscellaneous taxes	31,979	30,446
Other operating costs and expenses	420,933	287,812
Total benefits and expenses	1,562,580	1,280,245
Income (loss) before income tax expense	(216,080)	389,985
Income tax expense	15,241	22,509
Net income (loss)	\$ (231,321)	\$ 367,476
Net income (loss) per common share - basic and diluted	\$ (0.05)	\$ 0.08

See notes to condensed consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited)
	Three months end
	March 31, M
	2005
	-----
Net income (loss)	\$ (231,321) \$
Unrealized gain (loss) on available-for-sale securities:	

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Unrealized holding gain (loss) during the period	(257,680)	
Less: Reclassification for gains (loss) included in net income	(1,669)	
Tax expense	51,302	
	-----	-----
Other comprehensive loss	(204,709)	
	-----	-----
Comprehensive income (loss)	\$ (436,030)	\$
	=====	=====
Comprehensive income (loss) per common share-basic and diluted	\$ (0.10)	\$
	=====	=====

See notes to condensed consolidated financial statements.

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FIRST AMERICAN CAPITAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) March 31, 2005	(Unau Marc 2
	-----	-----
OPERATING ACTIVITIES:		
Net income (loss)	\$ (231,321)	\$
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Interest credited on annuities and premium deposits	85,826	
Net realized investment (gain) loss	1,669	
Provision for depreciation	41,347	
Equity loss in investment in affiliate	-	
Settlement loss	35,465	
Amortization of premium and accretion of discount on fixed maturity and short-term investments	20,869	
Provision for deferred federal income taxes	15,241	
Decrease in accrued investment income	6,155	
(Increase) decrease in accounts receivable	(68,309)	
Acquisition costs capitalized	(322,203)	
Amortization of deferred acquisition costs	196,132	
(Increase) decrease in policy loans	(10,400)	
Decrease (increase) in other assets	17,488	
Increase in future policy benefits	411,748	
Increase (decrease) in liability for policy claims	1,700	
Increase (decrease) in deposits on pending policy applications	2,868	
Decrease in reinsurance premiums payable	(2,048)	
Increase in commissions, salaries, wages and benefits payable	10,796	
Increase in other liabilities	69,852	

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Net cash provided by operating activities	\$	282,875	\$
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See notes to condensed consolidated financial statements.

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

		(Unaudited) March 31, 2005		(Unaudited) March 31, 2004
<b>INVESTING ACTIVITIES:</b>				
Purchase of available-for-sale fixed maturities	\$	(749,582)	\$	
Sale of available-for-sale fixed maturities		198,750		
Maturity of available-for-sale fixed maturities		500,000		
Additions to property and equipment		(1,207)		
Purchase of other investments		(218,550)		
Maturity of other investments		8,333		
Purchase of mortgage loans		(299,000)		
Payments received on mortgage loans		1,391		
Payments on notes receivable		-		
Net cash used in investing activities		(559,865)		
<b>FINANCING ACTIVITIES:</b>				
Proceeds from note payable		570,355		
Payments on notes payable		(19,061)		
Deposits on annuity contracts		1,009,784		
Surrenders on annuity contracts		(162,174)		
Policyholder premium deposits		16,842		
Withdrawals on policyholder premium deposits		(18,347)		
Purchase of treasury stock		(770,355)		
Net cash provided by financing activities		627,044		
Increase in cash and cash equivalents		350,054		
Cash and cash equivalents, beginning of period		527,028		
Cash and cash equivalents, end of period	\$	877,082	\$	

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SUPPLEMENTAL DISCLOSURE OF CASH ACTIVITIES:

Interest paid	\$	28,437	\$
Income taxes paid	\$	-	\$

SCHEDULE OF NON-CASH INVESTING TRANSACTIONS:

Receivable on sale of securities	\$	-	\$

See notes to condensed consolidated financial statements.

### 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 periods ended March 31, 2005 and 2004 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, 2004. 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. TREASURY STOCK TRANSACTION

On March 2, 2005 the Company acquired 450,500 shares of its common stock from a single, corporate shareholder, Brooke Corporation ("Brooke"). The Company negotiated a purchase price of \$770,355 (\$1.71 per share) to include \$200,000 cash at closing, with Brooke Credit Corporation, the finance subsidiary of Brooke, financing the remainder at a fixed interest rate of 8% over a ten year period. The agreement also grants Brooke three separate warrants to purchase common stock for 50,000 shares each at prices of \$1.71, \$3.35 and \$5.00. The warrants are exercisable in 2012 or immediately prior to any earlier change of control involving the Company and expire no later than 2015. The agreement also contained covenants whereby Brooke agreed, among other things, not to purchase additional shares of the Company's common stock or participate in any proxy contest or other effort to take control of the Company for a period of five



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years. The Company incurred a loss on the transaction in the amount of \$35,465. The loss is included in other operating costs and expenses for the current quarter. The fair value of the warrants has been included in additional paid in capital.

### 3. NOTES PAYABLE

The Company maintained a \$1,777,817 note from Western National Bank as of March 31, 2005. The note is secured by the home office building. The note will mature on April 22, 2013. The note is payable in 120 monthly payments of \$13,534 each with a final payment of the unpaid principal balance and interest on April 22, 2013. Interest will be accrued at 6% until April 22, 2008 at which time the rate may change. The interest rate change will be the Wall Street Journal Prime Rate of Interest, subject to a floor of 6% and a ceiling of 9.5%.

On March 2, 2005 the Company borrowed \$570,355 from Brooke Credit Corporation at a fixed interest rate of 8% over a ten year period (See Note 2). The note is payable in 120 monthly payments of \$6,897. The balance of the note at March 31, 2005 was \$565,084.

### 4. 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. On March 2, 2005 the Company acquired 450,500 shares of its common stock from Brooke. The weighted average number of common shares outstanding was 4,541,917 and 4,687,078 for the three months ended March 31, 2005 and March 31, 2004, respectively.

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## FIRST AMERICAN CAPITAL CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. 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.

### 6. 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 ("Meyer"), the Company's former President, arising, in part, out of Meyer's employment with the Company. Among other things, the Company is seeking to recover expense reimbursements previously paid to Meyer and Company funds allegedly misappropriated by Meyer. The petition alleges that Meyer misappropriated funds from the Company by fraudulently altering a check made payable to the Company. The Company is also seeking to have Meyer reimburse it for the amount it paid

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another insurance company in settlement of a claim. On August 8, 2003, the Company settled a claim that it had breached various marketing agreements with AF&L, a long-term care insurance company, and certain of its affiliates, through the payment to AF&L of \$150,000 plus \$15,000 in attorney fees. The petition asserts that Meyer entered into the marketing agreements despite knowing that the Company could not perform on the financial requirements of the agreements and without the knowledge, approval or authorization of the Company's Board of Directors.

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

The Company denies Meyer's allegations and will vigorously defend against them as well as pursue its claims against Meyer. The trial is currently in the discovery stage. No trial date has been set. No accrual of any loss or gain that may result from the resolution of these matters has been reflected in the financial statements. The amount of the ultimate loss or gain could differ materially from the amounts noted above.

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### FIRST AMERICAN CAPITAL CORPORATION

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 7. 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 ended March 31, 2005 and 2004 and as of March 31, 2005 and December 31, 2004 is as follows:

	Three months ended	
	March 31, 2005	March 31, 2004
	-----	-----
Revenues:		
Life and annuity insurance operations	\$ 1,291,279	\$ 1,416,710
Corporate operations	55,221	253,520
	-----	-----
Total	\$ 1,346,500	\$ 1,670,230
	=====	=====

Income (loss) before income taxes:

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Life and annuity insurance operations	\$	83,692	\$	388,381
Corporate operations		(299,772)		1,604
		-----		-----
Total	\$	(216,080)	\$	389,985
		=====		=====
Depreciation and amortization expense:				
Life and annuity insurance operations	\$	196,132	\$	193,956
Corporate operations		41,347		27,772
		-----		-----
Total	\$	237,479	\$	221,728
		=====		=====
		March 31,		December 31,
		2005		2004
		-----		-----
Assets:				
Life and annuity insurance operations	\$	19,749,821	\$	16,170,650
Corporate operations		3,976,334		5,481,770
		-----		-----
Total	\$	23,726,155	\$	21,652,420
		=====		=====

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" that is afforded such statements under the Private Securities Litigation Reform Act of 1995 when they are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements.

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

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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.

### Critical Accounting Policies and Estimates

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

#### Investments

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

#### Deferred Policy Acquisition Costs

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

#### Future Policy Benefits

The Company establishes liabilities for amounts payable under insurance policies. Generally, benefits are payable over an extended period of time and the reserves established for future policy benefits are dependent on the assumptions used in the pricing of the products. Principal assumptions used in pricing policies and in the establishment of reserves for future policy benefits

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are mortality, morbidity, expenses, persistency, investment returns and inflation. Differences between actual experience and assumptions used in the pricing of these policies and in the establishment of liabilities may result in variability of net income in amounts which may be material.

### Future Annuity Benefits

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

### Premiums

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

### Income Taxes

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

### Reinsurance

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

### Financial Condition

Significant changes in the condensed consolidated balance sheets from December 31, 2004 to March 31, 2005 are highlighted below.

Total assets increased from \$22,954,996 at December 31, 2004 to \$23,726,155 at March 31, 2005. The increase in total assets is primarily attributable to the investment of premiums received during the year. Given the long-term nature of the policy and contract liabilities associated with these premiums, management is able to invest these premiums for a period of time until a payout of policy benefits is required.

The Company's available-for-sale fixed maturity securities had a fair value of \$13,264,284 and \$13,479,388 at March 31, 2005 and December 31, 2004, respectively. This investment portfolio is reported at market value with unrealized gains and losses, net of applicable deferred taxes, reflected as a separate component of accumulated other comprehensive income.

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

Mortgage loans on real estate increased from \$349,542 at December 31, 2004 to \$647,151 at March 31, 2005. The increase is attributable to the purchase of an additional mortgage loan on commercial property. The Company currently owns two mortgage loans. The Company may purchase more of these types of investments in the future in limited quantities in an effort to enhance the Company's investment portfolio yield.

Other investments increased from \$206,306 at December 31, 2004 to \$423,173 at March 31, 2005. The increase is attributable to the purchase of additional investments in lottery prize cash flows during the three months ended March 31, 2005. These other investments involve purchasing assignments of the future payment rights from the lottery winners at a discounted price sufficient to meet the Company's yield requirements. Payments on these other investments will be made by state run lotteries and as such are backed by the general credit of the respective state. The Company may purchase more of these types of investments in the future in limited quantities in an effort to enhance the Company's investment portfolio yield.

Cash and cash equivalents increased to \$877,082 at March 31, 2005 from \$527,028 at December 31, 2004. Refer to the statement of cash flows for sources and uses of cash.

Accounts receivable increased 26% from \$258,194 at December 31, 2004 to \$326,503 at March 31, 2005. The increase is primarily due to an increase of \$66,165 in amounts due from agents. An allowance for uncollectible items is not deemed necessary with respect to these receivables.

Deferred policy acquisition costs, net of amortization, increased 3% from \$4,516,994 at December 31, 2004 to \$4,643,065 at March 31, 2005 resulting from the capitalization of acquisition expenses related to the sales of life insurance. These acquisition expenses include commissions on first year business, medical exam and inspection report fees, and salaries of employees directly involved in the marketing, underwriting and policy issuance functions. Management of the Company reviews the recoverability of deferred acquisition costs on a quarterly basis based on current trends as to persistency, mortality and interest. These trends are compared to the assumptions used in the establishment of the original asset in order to assess the need for impairment. Based on the results of the aforementioned procedures performed by management, no impairments have been recorded against the balance of deferred acquisition costs.

Liabilities increased to \$15,390,388 at March 31, 2005 from \$13,988,309 at December 31, 2004. 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 \$411,747 or 10% from December 31, 2004 to March 31, 2005. These reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. Reserves for future annuity benefits increased \$931,611 or 14% from December 31, 2004 to March 31, 2005. In 2005, annuity contract liabilities increased due to the introduction of three new annuity products to the marketing force and continued considerations received on the Company's FA2000 product. 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.

Other liabilities increased \$69,852 from \$200,870 at December 31, 2004 to \$270,722 at March 31, 2005. The increase is attributable to timing factors

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associated with the payment of significant invoices for professional services and property taxes.

Notes payable increased \$551,294 from \$1,791,607 at December 31, 2004 to \$2,342,901 at March 31, 2005. The increase is attributable to the Company acquiring 450,500 shares of its common stock from Brooke. The Company negotiated a purchase price of \$770,355 (\$1.71 per share) to include \$200,000 cash at closing, with Brooke Credit Corporation, the finance subsidiary of Brooke, financing the remaining \$570,355 at a fixed interest rate of 8% over a ten year period.

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Deferred federal income taxes payable decreased to \$567,429 at March 31, 2005 from \$603,489 at December 31, 2004. Deferred federal income taxes payable are established based on timing differences between income recognized for financial statement purposes and taxable income for the Internal Revenue Service. These deferred taxes are based on the operations of the Company and FLAC and on unrealized gains of available-for-sale securities. The decrease in deferred taxes payable is primarily attributable to the decrease in unrealized gains in the investment portfolio at March 31, 2005 compared to December 31, 2004.

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### 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 ended March 31, 2005 and 2004:

Three months ended	
March 31, 2005	March 31, 2004

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Whole life insurance:		
First year	\$ 221,134	\$ 286,983
Renewal	927,580	793,692
Term insurance:		
First year	40	630
Renewal	1,723	1,470
Single premium	5,720	1,620
	-----	-----
Gross premium income	1,156,197	1,084,395
Reinsurance premiums assumed	2,035	1,181
Reinsurance premiums ceded	(45,776)	(47,610)
	-----	-----
Net premium income	1,112,456	1,037,966
	=====	=====

Net premium income increased \$74,489 or 7% from the three months ended March 31, 2004 to the same period during 2005. Total first year whole life premium decreased \$65,850 or 23% from 2004 to 2005. The significant negative trend in first year whole life premium began in 2003 as a result of the disruptive effect that the Company's 2003 proxy contest had on its customers, shareholders and its marketing agents used to market the Company's FA2000 product. The downward trend continued in 2004 and 2005 as a result of the Company's shift in marketing emphasis away from its FA2000 product. The FA2000 product was designed primarily for the Company's shareholders. Now that all shareholders have been contacted, emphasis is shifting to other products. In addition, the interest rate credited on the FA2000 annuity rider determines whether it remains competitive in the market. In the lower interest rate environment of the last few years, the product was competitive because the Company paid an above average interest rate on the annuity rider.

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

Total renewal year whole life premiums increased \$133,888 or 17% from the three months ended March 31, 2004 to the same period during 2005. Renewal premiums reflect the premium collected in the current year for those policies that have surpassed their first anniversary. Renewal premiums will continue to increase unless premiums lost from surrenders, lapses, settlement options or application of the non-forfeiture options, exceed prior year's first year premium, other than single premium.

Net investment income increased \$67,530 or 55% from the three months ended March 31, 2004 to the same period during 2005. During the first quarter of 2004 the Company sold a significant portion of its bond portfolio in order to realize market gains and reinvest the resulting proceeds using a new investment strategy. The new strategy is focused primarily on matching maturities to the anticipated cash needs of the Company, but also attempts to match the investment mix to others within the Company's industry peer group. The proceeds from the sale were used to purchase short-term securities with maturities ranging from 30 to 120 days. As these short term securities matured, the proceeds were reinvested in conjunction with the new investment strategy.



Net realized investment gain (loss) decreased \$466,032 from the three months ended March 31, 2004 to the same period during 2005. The decrease is attributable to the sale of a significant portion of the Company's bond portfolio during the three months ended March 31, 2004. Gains totaling \$464,363 were realized upon the sale of these bonds.

Benefits and expenses totaled \$1,562,580 and \$1,280,245 during the three months ended March 31, 2005 and 2004, respectively. Included in total benefits and expenses were policy reserve increases of \$411,748 and \$369,016 during three months ended March 31, 2005 and 2004, 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.

Policyholder surrender values increased \$27,895 from \$21,714 during the three months ended March 31, 2004 to \$49,609 during the same period in 2005. This increase is attributable to the maturation of policies.

Interest credited on annuities and premium deposits totaled \$85,826 and \$76,448 for the three months ended March 31, 2005 and 2004, respectively. The increase during 2005 of \$9,378 or 12% is primarily a result of the increase in annuity fund balances. Both interest credited on annuities and premium deposits have increased as a result of the increase in the number of policies in force. The average interest credit rate on annuities and premium deposits has decreased from 5.6% to 4.6% during the three months ended March 31, 2004 and 2005, respectively. The decrease is attributable to management's attempt to more effectively manage the interest spread between the rate the Company earns on its investment portfolio and the rate being credited to policyholder accounts combined with the introduction of several new annuity products during 2005 which are deemed to be shorter in duration and thus credit interest at a lesser rate than other annuities which have historically been offered by the Company.

Salaries, wages and employee benefits increased from \$269,448 during the three months ended March 31, 2004 to \$315,040 during the same period in 2005. The increase during 2005 is primarily attributable to an increase in employee headcount combined with increased employee benefit expenses.

Other operating costs and expenses totaled \$420,933 and \$287,812 for the three months ended March 31, 2005 and 2004, respectively. Significant components of the \$133,121 increase from 2004 to 2005 include the following. Professional fees increased \$49,323 primarily due to legal costs incurred in support of the stock repurchase from Brooke. Office expenses increased \$39,471 primarily due to increased printing costs incurred in conjunction with the development of various new products released during the first quarter of 2005. The Company incurred a loss of \$35,465 on the transaction with Brooke (See Note 2 to the Condensed Consolidated Financial Statements).

As a result of the items noted above the Company incurred a net loss of \$231,321 for the three months ended March 31, 2005 and net income of \$367,476 for the three months ended March 31, 2004.

#### Liquidity and Capital Resources

During the quarter ended March 31, 2005, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity to purchase various investments. Net cash provided by operating activities during the three months ended March 31, 2005 totaled \$282,875 as compared with \$428,688 for the three months ended March 31, 2004.

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

As of March 31, 2005, the Company had consolidated cash reserves and liquid investments of approximately \$14,316,644, as compared with \$14,200,958 at December 31, 2004. Of these amounts, cash reserves and liquid investments at FLAC as of these dates were approximately \$13,282,629 and \$12,812,107, respectively. However, due to insurance regulatory restrictions, these amounts cannot necessarily be used to fund the cash needs of the parent company on a stand-alone basis. As of these dates, cash reserves and liquid investments at the parent company level were approximately \$1,034,015 and \$1,388,851, respectively.

Management believes that these funds provide sufficient liquidity to fund the basic operating needs at both the parent company and the FLAC levels for the foreseeable future. However, if extraordinary legal or other expenses (such as those incurred in 2003 and 2004 with respect to the proxy contest, Meyer litigation, and special committee activities) are unexpectedly incurred at the parent company level or if operating losses continue unabated at 2002 through 2004 levels, then the sufficiency of the parent company's operating cash position could be jeopardized. In addition, although there can be no assurance that extraordinary corporate activities will not continue, management believes that steps recently taken by the Company reduce the likelihood that it will continue to incur extraordinary expenses such as those incurred in 2003 and 2004.

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

The Company's former President and Chief Executive Officer has made a demand on

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the Company for the payment of \$250,000 in severance benefits under his employment agreement. The Company denies any such obligation. 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. This information is accumulated and communicated to Company management to allow timely decisions regarding disclosure. The Company's Chief Executive Officer and Chief Financial Officer conducted an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation of those controls and procedures, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information required to be disclosed in the Company's periodic filings.

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

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## PART II

### OTHER INFORMATION

#### 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

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Registrant's Form 8-K filed April 11, 2005)

- 4 Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations, and Restrictions Thereof of 6% Non-Cumulative, Convertible, Callable Preferred Stock (Incorporated by reference from Exhibit 3 to the Registrant's amended Form 10-SB filed August 13, 1999)
- 10.1 Form of Advisory Board Contract (Incorporated by reference from Exhibit 6.2 to the Registrant's amended Form 10-SB filed August 13, 1999)
- 10.2 Service Agreement amended and restated effective January 1, 2002 between First American Capital Corporation and First Life America Corporation (Incorporated by reference from Exhibit 10.3 to the Registrant's Form 10-KSB filed March 31, 2003)
- 10.3 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)
- 10.4 Employment Agreement effective February 16, 2004 between First American Capital Corporation and John F. Van Engelen, as amended (Incorporated by reference from Exhibit 10.5 to the Registrant's Form 10-QSB filed November 15, 2004)
- 10.5 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)
- 10.6 Stock Repurchase Agreement between First American Capital Corporation and Brooke Corporation dated March 2, 2005 (Incorporated by reference from Exhibit 10.7 to the Registrant's Form 10-KSB filed March 31, 2005)
- 10.7 Warrant for 50,000 shares of First American Capital Corporation common stock for \$1.71 per share issued to Brooke Corporation effective March 2, 2005 (Incorporated by reference from Exhibit 10.8 to the Registrant's Form 10-KSB filed March 31, 2005)
- 10.8 Warrant for 50,000 shares of First American Capital Corporation common stock for \$3.35 per share issued to Brooke Corporation effective March 2, 2005 (Incorporated by reference from Exhibit 10.9 to the Registrant's Form 10-KSB filed March 31, 2005)

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Exhibit No. -----	Description -----
10.9	Warrant for 50,000 shares of First American Capital Corporation common stock for \$5.00 per share issued to Brooke Corporation effective March 2, 2005 (Incorporated by reference from Exhibit 10.10 to the Registrant's Form 10-KSB filed March 31, 2005)
10.10	Employment Agreement effective February 7, 2005 between First American Capital Corporation and Richard H. Katz (Incorporated by reference from Exhibit 10.11 to the Registrant's Form 8-K filed April 22, 2005)
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 March 2, 2005 announcing current developments.

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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: 5/16/2005  
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By: /s/ John F. Van Engelen  
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John F. Van Engelen  
President & Chief Executive Officer

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Date: 5/16/2005

By: /s/ Patrick A. Tilghman

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Patrick A. Tilghman  
Treasurer & Chief Financial Officer