FIRST AMERICAN CAPITAL CORP /KS
Form 10KSB
March 28, 2002

FORM 10-KSB

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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
(Name of small business issuer in its charter)

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

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

Issuers telephone number (785) 267-7077

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this form 10-KSB [X]

State issuer s revenues for its most recent fiscal year: $3,219,148

State the aggregate market value of the voting equity held by non-affiliates: Of the 5,438,985 shares of common stock of the registrant issued as of March 13, 2002, 4,393,985 shares are held by non-affiliates. Because of the absence of an established trading market for the common stock, the registrant is unable to calculate the aggregate market value of the voting stock held by non-affiliates as of a specified date within the past 60 days.

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

Common Stock, $.10 Par Value - 5,273,985 shares as of March 13, 2002.

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

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FORM 10-KSB
For the Fiscal Year Ended December 31, 2001

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PART I

Item 1. Description of Business

First American Capital Corporation (the Company) was incorporated on July 10, 1996 for the purpose of forming, owning and managing life insurance companies. The Company sold 2,120,000 shares at $.10 per share to its organizing shareholders in August of 1996 for total proceeds of $212,000. Also, in September, 1996, the Company sold 600,000 shares of its common stock for $1.00 per share in a separate private placement. The initial capital was used to fund the Company s efforts to register a $12,500,000 intra-state public offering with the Office of the Kansas Securities Commissioner. Included in the registration was a 10% over-sale provision. On March 11, 1996 the Office of the Kansas Securities Commissioner declared the registration statement effective.

On January 11, 1999, the Company completed the intra-state public stock offering raising approximately $13,750,000 of capital which included a 10% over-sale of $1,250,000. $3,250,000 of the proceeds of the stock sale were used to capitalize the life insurance subsidiary, First Life America Corporation (FLAC). The venture capital subsidiary, First Capital Venture, Inc., was formed in October of 1998; however, it has not yet been capitalized. The remainder of the proceeds will provide additional capital for the life insurance subsidiary or for the possible acquisition of life insurance or insurance related company(s) or provide working capital.

First American Capital Corporation

The primary segment of the Company s operations is life insurance and annuities. Accordingly, a significant portion of revenue will be generated by the Company s wholly owned life insurance subsidiary, FLAC. Additional income is provided in the form of investment and rental income. The Company has contracted with FLAC to provide services which are incident to the operations of FLAC. Under the terms of the contract, FLAC pays the Company service fees based on percentages of first year and renewal premium income delivered by FLAC.

The Company has contracted with First Alliance Corporation (FAC) of Lexington, Kentucky to provide accounting services for FLAC. Under the terms of the service 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 pay policies and .5% in years six through twenty for twenty pay policies. Pursuant to the agreement, the Company incurred $142,785, $117,246, and $60,531 of fees during 2001, 2000 and 1999, respectively. FAC is also a shareholder of the Company (see Item 11 on Page 20).

First Life America Corporation

On October 15, 1997, FLAC received a certificate of authority from the Kansas Insurance Department to transact life and annuity business in the state of Kansas. On November 19, 1998, life insurance operations commenced. Under the provisions of Generally Accepted Accounting Principals (GAAP), FLAC has $4,922,152 of capital and surplus as of December 31, 2001, and is wholly owned by the Company. FLAC has contracted with the Company for policy administration and data processing services as discussed below.

Administration

Effective December 31, 1998, FLAC entered into a service agreement with the Company. Under the terms of the agreement, the Company provides personnel, facilities, and services incident to the operations of FLAC. FLAC does not have any employees. Services performed pursuant to the agreement are underwriting, claim processing, accounting, policy processing and other services necessary for FLAC to operate. The agreement is effective until either party provides 90 days written notice of termination. Under the agreement, FLAC pays fees based on a percentage of first year and renewal premiums delivered by FLAC. Delivered premium is defined as premium received on new written business which has been underwritten by FLAC and the policy accepted by the policy

owner upon delivery by the agent. The percentages under the contract 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. If at any time FLAC s annual premiums on new business were to exceed $5,000,000, the provisions of the agreement will be tolled until the agreement has been resubmitted to the Kansas Insurance Department for approval. FLAC bears the cost of all direct selling costs which include agent recruiting, training and licensing; agent commissions; any benefits or awards directly for or to agents or management including any life or health insurance to be provided; and any taxes (federal, state or county) directly related to the business of FLAC. Additionally, FLAC is responsible for any reinsurance premiums; legal expenses related to settlement of claims; state examination fees; directors fees and directors liability insurance; interest on indebtedness; costs related to mergers or acquisitions and costs related to fulfilling obligations of the life insurance and annuity contracts written by the agents of FLAC. Pursuant to the terms of the agreement, FLAC incurred $704,151, $562,686 and $275,375 of service fees during 2001, 2000 and 1999, respectively.

Effective January 1, 2002, FLAC entered into a new service agreement with the Company. Under the terms of the agreement, the Company provides personnel, facilities, and services incident to the operations of FLAC. FLAC does not have any employees. Services performed pursuant to the agreement are underwriting, claim processing, accounting, policy processing and other services necessary for FLAC to operate. The agreement is effective until either party provides 90 days written notice of termination. FLAC pays fees equal to the Company's cost of providing such services, including an appropriate allocation of the Company's overhead expenses, in accordance with generally accepted accounting principles. FLAC still bears the cost of all direct selling costs which include agent recruiting, training and licensing; agent commissions; any benefits or awards directly for or to agents or management including any life or health insurance to be provided; and any taxes (federal, state or county) directly related to the business of FLAC. Additionally, FLAC is responsible for any reinsurance premiums; legal expenses related to settlement of claims; state examination fees; directors fees and directors liability insurance; interest on indebtedness; costs related to mergers or acquisitions and costs related to fulfilling obligations of the life insurance and annuity contracts written by the agents of FLAC.

Actuarial Services

On behalf of FLAC, the Company has retained the services of Miller & Newberg Inc., consulting actuaries of Olathe, Kansas. Mr. Eric Newberg of Miller & Newberg Inc. has been appointed by the Board of Directors of FLAC to act as valuation and illustration actuary. In recent years, the Company has also retained actuarial services of Bruce and Bruce Company of Lake Bluff, Illinois and Lewis and Ellis of Overland Park, Kansas in connection with the development of the various insurance products being marketed by FLAC.

Products of FLAC

The various insurance products currently being marketed by FLAC are as follows:

First American 2000 is a modified payment whole life insurance policy with a flexible premium deferred annuity rider. A modified payment whole life insurance policy requires premium payments to be made for a certain number of years after which the policyholder is entitled to policy benefits without making future payments. The product combines both a ten and twenty payment period based on the issue age of the insured. Issue ages from age 0 (30 days) to 20 and 66 to 80 are ten pay policies and issue ages from 21 to 65 are twenty pay policies. Premium payments are split between life and annuity based on percentages established in the product design. First year premium payments are allocated 100% to life insurance and renewal payments are split 50% to life and

50% to annuity. The product is being sold in premium units with the ability to purchase either fractional or multiple units. At the end of the required premium paying period, the policyholder may continue to make full premium payments into the annuity rider to provide for greater annuity accumulations.

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

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

FLAT 10 (First Life Affordable Term) is a ten year term product issued from age 20 to 70. It has a re-entry provision allowing the current insured to re-qualify prior to each ten year period. The re-qualification is essentially re-underwriting including medical exams and inspections to determine if the risk has changed or remained the same. The policy expires automatically at age 95.

First Guard 10 is a ten year term product renewable to age 70 and convertible to age 60. Renewable means the policy is kept inforce as long as the premiums are paid, but the rates do change each 10 year period. Convertible means that prior to age 60 the policy can be converted to a permanent plan of insurance, whole life or universal life, but not term. The product is issued from age 18 to 60. The policy includes an accelerated death benefit rider. This rider provides that in the event that certain ailments or medical conditions strike, a 25% or 50% of the base policy coverage could be paid. The maximum benefit under this rider is $250,000. Payment of an accelerated benefit does reduce the future death benefit.

Product Marketing and Sales

FLAC is using the same face-to-face marketing techniques for its life insurance products as the Company did for its public stock offering. The marketing plan is designed in its entirety around the Company's stockholder base, which provides an excellent referral system for FLAC product sales.

After FLAC develops a substantial policyholder base in Kansas, marketing efforts are expected to expand into additional states. This expansion will depend largely on many factors, one of which is being admitted to do business in these states. As of March 15, 2002, approval has been granted to FLAC in the states of Illinois, Kansas, Nebraska, North Dakota, Ohio, Oklahoma, and Texas. Management intends to file for certificates of authority in the states of Florida, Kentucky, and Missouri in the near future. Due to the uncertainties involved, management cannot reasonably estimate the time frame of marketing expansion to any of these states.

FLAC's insurance operations commenced on November 19, 1998 on a limited basis for test marketing of the initial insurance product. Full scale marketing commenced on January 11, 1999. The agency force involved in selling the public offering was licensed through FLAC to sell the life insurance products. FLAC continually recruits and trains new agents.

Insurance Inforce

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

Amounts of Insurance(1)
(shown in thousands)

	2001	2000	1999
Beginning of year	$ 83,277	$ 39,536	$ 337
Issued during year	46,962	53,953	39,378
Revived during year	167	280	-
Lapse, surrender and decreased	(18,104)	(10,492)	(179)
In-force end of year	$112,302	$ 83,277	$39,536

(1) Excludes accidental death benefits of $31,027, $26,520, and $17,100 in 2001, 2000, and 1999, respectively.

Reinsurance

In order to reduce the risk of financial exposure to adverse underwriting results, insurance companies reinsure a portion of their risks with other insurance companies. FLAC has entered into agreements with Business Men's Assurance Company of America (BMA) of Kansas City, Missouri, as well as Optimum Re Insurance Company of Dallas, Texas, to reinsure portions of the life insurance risks it underwrites. Pursuant to the terms of the agreements, FLAC retains a maximum of $50,000 on any one insured. Currently, insurance ceded to Optimum Re Insurance Company is limited to the 10-year term policies. At December 31, 2001, 2000 and 1999, respectively, FLAC had ceded amounts totaling $31,878,000, $24,259,688 and $8,755,634 of ordinary business and $31,027,000, $26,520,000 and $17,100,000 of accidental death benefit risk. In the event that the reinsurance companies are unable to fulfill their obligations under the reinsurance agreements, FLAC remains primarily liable for the entire amount at risk. According to the reinsurance agreements, there are generally no premiums due on first year business.

Underwriting

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

Evaluating the impact of future Acquired Immune Deficiency Syndrome ("AIDS") claims under life insurance policies issued is extremely difficult, in part due to the insufficiency and conflicting data regarding the number of persons now infected with the AIDS virus, uncertainty as to the speed at which the AIDS virus has and may spread through the general population, advancements in medical treatment options. The life insurance subsidiary has implemented, where legally permitted, underwriting procedures designed to assist in the detection of the AIDS virus in applicants.

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Investments

During portions of 2000 and 1999, the Company and FLAC was under contract with Advantus Capital Management, Inc. of St. Paul, MN for management of investments. Fees were based on the market value of invested assets. In 2000, management determined that the contact with Advantus Capital Management, Inc. would be terminated and that the Company and FLAC would manage its investment portfolio internally.

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

Competition

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

Governmental Regulation

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

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

Federal Income Taxation

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

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Financial Information Relating to Industry Segments

Financial information related to specific segments of the Company s business are presented below. All sales of life insurance by FLAC are to unaffiliated customers.

	Years ended December 31,		
	2001	2000	1999
Revenues			
Life and annuity insurance operations	$ 2,704,352	$ 2,181,628	$ 1,243,323
Corporate operations	514,796	482,187	390,954
Total	$ 3,219,148	$ 2,663,815	$ 1,634,277
Income/(loss) before income taxes:			
Life and annuity insurance operations	$ 532,626	$ 537,649	$ 418,084
Corporate operations	(734,059)	(245,768)	(404,036)
Total	$ (201,433)	$ 291,881	$ 14,048
Depreciation and amortization expense:			
Life and annuity insurance operations	$ 459,124	$ 565,869	$ 234,522
Corporate operations	87,698	15,666	14,916
Total	$ 546,822	$ 581,535	$ 249,438
Assets:			
Life and annuity insurance operations	$ 8,795,709	$ 6,024,504	$ 4,255,380
Corporate operations	8,444,254	8,356,250	8,125,955
Total	$17,239,963	$14,380,754	$ 12,381,335

Employees

As of December 31, 2001, the Company had 16 full time and no part time employees.

Item 2. Description of Property

During 1999, the Company acquired approximately six and one-half acres of land, located in Topeka, KS. A 20,000 square foot building has been constructed on approximately one-half of this land. 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. The Company intends to sell the remaining land at an undetermined time in the future.

Item 3. Legal Proceedings

There are no legal proceedings pending against the Company or its subsidiaries or of which any of their property is the subject. There are no proceedings in which any director, officer, affiliate or shareholder of the Company, or any of their associates, is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

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

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

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

(a.) Market Information

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

(b.) Holders

As of March 13, 2002, there are approximately 4,950 shareholders of the Company s outstanding common stock.

(c.) Dividends

The Company has not paid any cash dividends since inception (July 10, 1996). Additionally, dividends are not anticipated in the foreseeable future.

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Item 6. 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, beginning on page F-1.

Financial Position

Significant changes in the consolidated balance sheets from 2000 to 2001 are highlighted below.

Total assets increased from $14,380,754 at December 31, 2000 to $17,239,963 at December 31, 2001. The Company's available-for-sale fixed maturities had a fair value of $8,605,901 and amortized cost of $8,313,448 at December 31, 2001. This investment portfolio is reported at market value with unrealized gains and losses, net of applicable deferred taxes, reflected as a separate component in shareholders' equity. Several of the short-term investments held by the Company in 2000 were either sold or matured and the proceeds were used to purchase investments in available-for-sale fixed maturity investments with higher yields during 2001. This change caused a $2.2 million decrease (48%) in short-term investments and an increase of $2.4 million (38%) in the Company's fixed maturities portfolio from 2000 to 2001.

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

In 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 December 31, 2001, the balance of this account was $274,564.

Cash and cash equivalents decreased from $832,485 at December 31, 2000 to $463,363 at December 31, 2001. Refer to the statement of cash flows for uses and sources of cash during 2001.

Investments in related parties increased $133,776 from $16,800 at December 31, 2000 to $150,576 at December 31, 2001. This increase is due to the purchase of investments in Arkansas Security Capital Corporation and First Computer Services, LLC. During 2001, the Company purchased, through a private placement, 250,000 shares of common stock of Arkansas Security Capital Corporation ("ASCC") of Springdale, Arkansas for $25,000. ASCC intends to register an Arkansas intrastate public offering of $12,500,000. After ASCC'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. The Company also purchased a 50% interest in First Computer

Services, LLC ("FCS"). FCS owns the computer hardware and software that runs the Company's policy administration,

underwriting, claim processing, and accounting functions. First Alliance Corporation ("FAC", another related party) owns the remaining 50% interest in FCS. During 2001, the Company contributed capital of $115,195. The total investment in FCS is offset by the Company's share of the FCS loss, $6,420.

Accounts receivable from affiliate increased $124,881 from $0 at December 31, 2000 to $124,881 at December 31, 2001. The receivable, which is due from FAC, is primarily attributable to the Company funding FAC's investment in FCS.

Deferred policy acquisition costs, net of amortization, increased 52% from $1,272,554 at December 31, 2000 to $1,928,820 at December 31, 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 $3,060,247 at December 31, 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 $5,950,041 at December 31, 2001 from $2,828,180 at December 31, 2000. A significant portion of this increase is due to life insurance related policy liabilities. Policy reserves established due to the sale of life insurance increased approximately $603,159 (66%) between 2000 and 2001. These reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions.

There was an increase in the amount of $937,584 (193%) for annuity contract liabilities from 2000 to 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 2001, annuity contract liabilities increased as additional policies reached the second policy year and the renewal policy base grew larger.

Deposits on pending policy applications increased to $172,616 at December 31, 2001 from $76,379 at December 31, 2000. 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 year to year are due to the timing of approval and delivery of the new business.

Policyholder premium deposits increased $91,713 (123%) from $76,379 at December 31, 2000 to $166,182 at December 31, 2000. Premium deposits have grown as the amount of insurance inforce has grown.

In accordance with existing reinsurance agreements, FLAC generally pays no reinsurance premiums on first year individual business. However, SFAS No. 113 requires the unpaid premium to be recognized as a first year expense and amortized over the estimated life of the reinsurance policies. FLAC records this unpaid premium as "reinsurance premiums payable" in the balance sheet and as "reinsurance premiums ceded" in the income statement. The change in reinsurance premiums payable between 2000 and 2001 was minimal.

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 $93,634 related to this note during 2001.

Federal income taxes payable increased to $533,793 at December 31, 2001 from $361,403 at December 31, 2000. Federal income taxes payable are primarily 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.

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Results of Operations

Significant components of revenues include life insurance premiums, net of reinsurance, and net investment income. The following table provides information concerning net premium income for the years ended December 31, 2001, 2000, and 1999:

	2001	2000	1999
Modified payment whole life insurance:			
First year	$1,365,755	$1,419,335	$1,086,234
Renewal	1,034,091	560,747	16,551
Single Premium	30,386		
Term insurance:			
First year	11,814	8,993	-
Renewal	8,871	-	-
Reinsurance premiums assumed	15	-	-
Gross premium income	2,450,932	1,989,075	1,102,785
Reinsurance premiums ceded	(78,203)	(54,162)	(12,498)
Net premium income	$2,372,729	$1,934,913	$1,090,287

Net premium income increased $437,816 (23%) from 2000 to 2001 and $844,626 (77%) from 1999 to 2000. The increases in net premium income are primarily driven by significant increases in total renewal year premiums during both 2001 and 2000. Total renewal year whole life premiums increased $473,344 from 2000 to 2001 and $544,196 from 1999 to 2000. The increases in renewal year premiums are consistent with the growing nature of the Company. Other significant increases in the components comprising net premium income include a $30,386 increase in single premiums from 2000 to 2001 and increases in reinsurance premiums ceded of $24,041 (44%) from 2000 to 2001 and $41,664 (333%) from 1999 to 2000. The increase in single premiums is attributable to the rollout of the First Step product. First Step is currently the only single premium product being marketed by the Company. Reinsurance premiums ceded reflect premiums paid to other companies to reinsure a portion of the risk associated with life policies. The increase in reinsurance premiums ceded each year is consistent with the increase in gross premiums.

Net investment income increased $1,658 (1%) from 2000 to 2001 and $155,255 (29%) from 1999 to 2000. During 1999 and 2000, short-term investments were converted to investments in available-for-sale fixed maturity investments, with higher yields. The invested asset mix, combined with a growing invested asset base each year, resulted in increased income from investments for the years ended December 31, 2001 and 2000.

Rental income increased from $0 in 2000 and 1999 to $106,963 in 2001. Rental income is earned by leasing approximately 12,500 square feet of office space in the home office building. The Company has executed a five year lease (expiring on July 1, 2006) on 10,000 square feet of the office space. The remaining 2,500 square feet is leased on a month-to-month basis.

Benefits and expenses totaled $3,240,581, $2,371,934 and $1,620,229 for the years ended December 31, 2001, 2000 and 1999, respectively. Included in total benefits and expenses were policy reserve increases of $603,159, $545,337 and $368,804 during 2001, 2000, and 1999, respectively. Life insurance reserves are actuarially determined based on such factors as insured age, life expectancy, mortality and interest assumptions. As more life insurance is written and existing policies reach additional durations, it is reasonable for policy reserves to continue to increase.

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Interest credited on annuity balances totaled $78,989, $21,683 and $3,236 for the years ended December 31, 2001, 2000 and 1999, respectively. The increases during 2001 and 2000 ($57,306 and $18,447, respectively) are primarily a result of the increase in annuity fund balances. Both interest credited on annuities and annuity fund balances have increased as a result of the increase in the number of policies inforce (2,933, 1,797 and 867 in 2001, 2000 and 1999, respectively).

Commission expense was $849,576, $863,159 and $631,929 for the years ended December 31, 2001, 2000, and 1999, 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 increases and/or decreases in commission expenses are directly related to the increases and/or decreases in first year premium income during each respective period.

Acquisition costs which are related to the sale of insurance are capitalized and amortized over the premium paying period of the associated policies. These costs include commissions and management fees incurred in the first policy year. During 2001, 2000 and 1999, $1,115,390, $1,158,212 and $901,613, respectively, of these costs had been capitalized as deferred policy acquisition costs. The related amortization for the same periods totaled $459,124, $565,869, and $234,522, respectively.

Salaries, wages and employee benefits increased from $682,458 in 2000 to $1,020,655 in 2001. This increase is due primarily to a 45% increase in the number of persons employed by the Company.

Administrative fees -related party are paid to First Alliance Corporation ("FAC"), a shareholder of the Company, for accounting services. During 2001, 2000 and 1999, respectively, these fees totaled $142,785, $117,246 and $60,531 and were calculated based on a percentage of FLAC's premium income collected. The increase in administrative fees during 2001 ($25,539 or 22%) and 2000 ($56,715 or 94%) correlates with the increase in premium income during the same time periods.

Other operating costs and expenses totaled $1,235,769, $690,841 and $525,556 for the years ended December 31, 2001, 2000, and 1999, respectively. The increases in both years are consistent with the growing nature of the Company. Significant components of the $544,928 increase from 2000 to 2001 include the following: interest expense ($95K), travel related expense ($85K), electronic data processing expense ($80K), depreciation ($70K), advertising ($70K), building operations expense ($40K), product development ($30K), recruiting ($20K) and insurance ($10K). The increases in interest, depreciation, building operations and insurance expenses are a result of the new home office building in Topeka, KS.

Liquidity and Capital Resources

During the years ended December 31, 2001, 2000, and 1999, the Company maintained liquid assets sufficient to meet operating demands, while continuing to utilize excess liquidity for fixed maturity investments. Net cash provided (used) by operating activities during the years ended December 31, 2001, 2000 and 1999 totaled $(226,170), $98,435 and $(109,199) 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. A significant portion of the Company's invested assets are readily marketable and highly liquid.

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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 years ended December 31, 2001 and 2000 totaled approximately $1.6 million and $900,000, respectively.

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Item 7. Financial Statements

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

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

NONE

PART III

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

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

Name	Age	Position	Term
Michael N. Fink	46	Chairman of the Board	One Year

Rickie D. Meyer	50	President and Director	One Year
Phillip M. Donnelly	50	Secretary/Treasurer /Vice President and Director	One Year
Danny N. Biggs	65	Director	One Year
Paul E. Burke, Jr.	68	Director	One Year
Edward C. Carter	59	Director	One Year
Kenneth L. Frahm	55	Director	One Year
John W. Hadl	62	Director	One Year
Stephen J. Irsik Jr.	55	Director	One Year
John G. Montgomery	62	Director	One Year
Harland E. Priddle	71	Director	One Year
Gary E. Yager	47	Director	One Year

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

Michael N. Fink: Mr. Fink has twenty-one years of experience in the insurance industry, primarily in sales management. From 1981 to 1984, Mr. Fink was an agent, District Director, and Regional Director with Liberty American Assurance Company in Lincoln, Nebraska. In 1984, Mr. Fink transferred to an affiliated company, Future Security Life, in Austin, Texas, where he served as Regional Director and Agency Director until 1988. In March 1988, Mr. Fink became affiliated with United Income, Inc. and United Security Assurance Company as Agency Director and Assistant to the President. In June 1993, Mr. Fink left the United Companies and became President of First Alliance Corporation and its life insurance and venture capital companies.

Rickie D. Meyer: Mr. Meyer has twenty years of experience in the insurance industry, primarily in sales management. From May 1982 to October 1984, Mr. Meyer was a life insurance agent, District Director and Executive Sales Director with Liberty American Assurance Company in Lincoln, Nebraska. In October 1984, Mr. Meyer transferred to an affiliated company to become Agency Director. In 1985, Mr. Meyer left Liberty American to become an organizer and Zone Sales Director for United Trust, Inc. in Springfield, Illinois. In January 1988, Mr. Meyer transferred to Columbus, Ohio to assist in the organization of United Income, Inc. and served as Zone Sales Manager. While with United Income, he was promoted to Training Director in 1991 and to Agency Director in 1993. Mr. Meyer left the United Companies in January 1996 to form the Company.

Phillip M. Donnelly: Mr. Donnelly has twenty-two years of experience in the insurance industry, primarily in the areas of financial and operations administration. He served as Treasurer and Chief Financial Officer of the

Cimarron Life Insurance Company from 1974 to 1986. In 1986, Mr. Donnelly returned to college and received his M.B.A. in Accounting from Fort Hays State University in 1988. In 1989, Mr. Donnelly became affiliated with The Franklin Life Insurance Company of Springfield, Illinois, where he served as Assistant Vice President in charge of purchasing, budgeting, forecasting and strategic planning until his departure in 1997. He then returned to Kansas and worked as a Financial Manager for Cargill Corporation until 1999. In 1999, Mr. Donnelly joined First American Capital Corporation and became Vice President/ Secretary/Treasurer and Director in 2000.

Danny N. Biggs: Mr. Biggs is Vice-President, Partner, General Superintendent and Director of Pickrell Drilling Company, Inc., Mobile Drilling Company, Inc., Central Dirt Service, Inc., and Pickrell Acquisitions, Inc. and also a Partner in Kelly Petroleum. Mr. Biggs is a past President of the Kansas Independent Oil & Gas Association ("KIOGA") and is currently a member and director of KIOGA and director and president of Kansas Oil & Gas Hall of Fame & Museum Foundation. He is a member of the Great Bend Chamber of Commerce, American Petroleum Institute, Interstate Oil & Gas Compact Commission Crude Oil Policy Committee, Association of Energy Service Companies and the Independent Petroleum Association of America. He served as Chairman of the Mid-America Oil & Gas Technology Exposition, Vision 2000 Area Relations/Image Committee, KIOGA Membership Committee and general Chairman of the 1992 KIOGA Convention. Mr. Biggs was recently inducted into the Kansas Oil & Gas Hall of Fame. Mr. Biggs is actively involved in numerous other business, civic and religious organizations including prior service as an Elder in the Presbyterian Church.

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

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

Kenneth L. Frahm: Mr. Frahm has been a self-employed farmer since 1975.He currently owns 1,200 acres of irrigated corn and dryland wheat production land

and is a member of a family partnership which produces over 500,000 bushels of corn and wheat annually on 6,500 acres of western Kansas farm land. Mr. Frahm's operating entities include Allied Family Farm and Grain Management, Inc. He is past President of the Kansas Development Finance Authority. He is past Chairman of 21st Century Grain Processing Cooperative, and a former member of the Board of Directors of Bank IV Community Bank in Colby. In addition, Mr. Frahm is a member of the Kansas Farm Service Agency State Committee appointed by US Agriculture Secretary Ann Veneman. He is a member of the Agricultural Use Value Committee of the Kansas Department of Revenue, a past member of the Board of Directors of the Kansas Area United Methodist Foundation and Chairman of its Investment Committee, Past President and Paul Harris Fellow of Rotary, a member of the Kansas Farm Bureau, Kansas Livestock Association, Kansas Corn Growers Association, Kansas Association of Wheat Growers and the Kansas Water Resources Association. Mr. Frahm is married to Sheila Frahm, a former Kansas United States Senator and has three daughters. Mr. Frahm received his B.A. in Economics in 1968 from Fort Hays Kansas State College and his M.B.A. in Finance in 1969 from the University of Texas at Austin

John W. Hadl: Mr. Hadl is an Associate Athletics Director at the University of Kansas in Lawrence, Kansas, and he also heads the Williams Educational Fund, which provides scholarship assistance to more than 400 male and female Kansas University student-athletes. With a membership of over 3,500 donors, the Williams Fund raised in excess of $3 million last year to pay the scholarship expenses of student-athletes. Prior to becoming the Associate Athletics Director, Mr. Hadl served as an Assistant Athletic Director and member of the KU football coaching staff. Mr. Hadl was a three year letterman at KU, earning All-American honors at two different positions-as a halfback in 1960 and as a quarterback in 1961. He was All-Conference three times. After his college career, Mr. Hadl, went on to play professional football for 18 seasons in the AFL, NFL with San Diego, Los Angeles, Green Bay and Houston. He was NFL Man of the Year in 1971 and the NFL's Most Valuable Player in 1973. He played in four AFL All-Star games, three title games and led the league in passing in 1968 and in 1971. In December of 1994, Mr. Hadl was inducted into the College Football Hall of Fame.

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

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John G. Montgomery: Mr. Montgomery is the President of Montgomery Communications, Inc. of Junction City, Kansas. He is a newspaper publisher and TV station owner. His current business affiliations include Directorship's with First National Bank, Junction City. He is also President of the Junction City Housing and Development Corporation. From 1964 to 1973 he was the Assistant to the President at the San Francisco Newspaper Printing Company. Mr. Montgomery is a member of the InterAmerican Press Association, Inland Daily Press Association and the Kansas Press Association. He was Civilian Aid to the Secretary of the Army of Kansas from 1979-1981 and has again served in that role since 1995. He has extensive state government service including Past Chairman of the Kansas Board of Regents, Past member of the Washburn University Board of

Regents, Kansas, Inc. - Science and Technology Council, and 1986 Democratic nominee for Lieutenant Governor. His considerable civic involvement, in part, includes being past President of the Junction City Chamber of Commerce, Director and past President of the United Way, past Board member of the Boy Scouts of America, Coronado Council, past Director of the YMCA, Trustee of the William Allen White Foundation, Co-chair of Economic Lifelines, Board member of Kansas Wildscape and the Kansas 4-H and a member of the Rotary Club. Mr. Montgomery has received the 1975 Jaycees Outstanding Young Man of Kansas Award, 1975 Junction City Jaycees Distinguished Service Award and the Department of the Army, Patriotic Civilian Service Award. He graduated from the Philips Academy, Andover, Massachusetts, in 1958, Yale University in 1962, receiving a Bachelor of Arts Degree, and from Stanford University in 1964, where he received his MBA Degree.

Harland E. Priddle: Mr. Priddle is President of Priddle & Associates, a business consulting firm specializing in business and economic development consulting. Mr. Priddle is the former Kansas Secretary of Agriculture (1982-1986) and served as the first Kansas Secretary of Commerce (1987-1991). As the first Secretary of Commerce, he was directly involved in the creation of such programs as Kansas, Inc., Kansas Technology Enterprise Corporation, Kansas Development Finance Authority and the Kansas Venture Capital Corp. He was candidate for Lt. Governor of Kansas in 1986 and 1990. He was the Deputy Director of the White House Communications Agency for the President for a period of four years (1970-1974) where he provided support and accompanied the President on approximately 200 Presidential trips. Mr. Priddle was the Vice President for Marketing and Customer Services for the Hutchinson National Bank from 1978 to 1981. He retired from the United States Air Force in 1974, after 22 years, with the rank of Colonel. While in the Air Force, he received 17 military decorations including the Bronze Star and two Legions of Merit. He received a BS in Agriculture from Kansas State University in 1952

Gary E. Yager: Mr. Yager recently became Executive Vice President and Chief Executive Officer and Senior Lender of the Columbian Bank of Topeka, Kansas. From October 1986 to December 1995, Mr. Yager served as either the Vice President and Branch Manager or the Vice President of Commercial Loans for the Commerce Bank and Trust of Topeka, Kansas. From 1976 to 1986, he served in various management positions with Bank IV of Topeka including Assistant Vice-President of Correspondent Banking and Branch Manager. Mr. Yager is currently a member of the Board of Directors of the Young Bank Officers of Kansas, Topeka-Shawnee County Certified Development Corporation, Contemporary Housing Alternatives of Topeka, and Quail Unlimited. He is a member of the Topeka Chamber of Commerce, former member of the Board of Directors of the Topeka Family Service and Guidance Center, and former advisor of Junior Achievement. He is a past member of the Topeka Active 20-30 Club, where he served in numerous leadership roles including President and Treasurer. Mr. Yager received his BA degree in Business Administration from Washburn University of Topeka in 1976.

Item 10. Executive Compensation

The following table sets forth amounts earned by executive officers as compensation over the past three years:

		Annual Compensation			
Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Other Annual Compensation ($)(2)	All Other Compensation

Rickie D. Meyer	2001	96,271	79,080	5,983	-
President and Director	2000	93,000	80,309	-	-
	1999	90,485	124,255	-	-
Michael N. Fink	2001	77,017	63,264	2,792	-
Chairman and Director	2000	74,330	64,247	-	-
	1999	72,388	43,405	-	-
Phillip M. Donnelly	2001	72,838	19,783	-	-
Treasurer / Secretary	2000	67,408	-	400	-
and Director	1999	30,639	601	-	-

(1) Includes incentive compensation pursuant to the Executive Employment Agreement, based on premiums
(2) Other Annual Compensation consists of automobile allowances and personal disability and life insurance premiums. The aggregate cost to the Company of such personal benefits did not exceed the lesser of $50,000 or 10% of the annual salaries received by the above individuals.

Compensation of Directors

As an annual retainer fee for directors who are not officers of the Company, an attendance fee pool was established. This pool consists of 1% of the premiums delivered in each calendar year and is paid to each board member on a pro-rata basis determined by his attendance of board meetings. This fee was payable in cash for 2000 and 2001.In addition, each Director is paid $750 per regular meeting attended for the Company and its subsidiaries, $75 per telephonic board meeting, and $250 per committee meeting. During 2001, there were four regular and two telephonic Board of Directors meetings. In addition, there were four audit committee, investment committee and compensation committee meetings.

Executive Employment Agreements

The Company has entered into Executive Employment Agreements with Messrs. Fink, Meyer and Donnelly. The employment agreements for Messrs. Fink and Meyer are for a term of four years beginning November 1, 1998. The employment agreement for Mr. Donnelly is for a term of two years beginning November 1, 2000. Annual compensation under the agreements is $72,000, $90,000 and $70,000 for Messrs. Fink, Meyer and Donnelly, respectively. Included in these agreements is a clause that requires the salaries to be adjusted annually to reflect current cost of living. Incentive compensation is earned based on percentages of first year life and renewal premiums of FLAC's First America 2000 product. Messrs. Fink, Meyer and Donnelly devote 25%, 100% and 100% of their time, respectively, to the operations of the Company.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information as of March 13, 2002, regarding ownership of Common Stock of the Company by (i) the only persons known by the Company to own beneficially more than 5% thereof; (ii) the directors individually; and (iii) all officers and directors as a group.

Name and Address of Beneficial Owner	Class of Stock	Amount and Nature of Beneficial Ownership	Percent of Class

Michael N. Fink 2581 Walnut Grove Lane Lexington, KY 40509	Common	125,000	2.4%
Rickie D. Meyer 3513 SW Alameda Dr. Topeka, KS 66614	Common	526,000	9.9%
Danny N. Biggs 2601 Canterbury Great Bend, KS 67530	Common	50,000	*
Paul E. Burke, Jr. 2009 Camelback Drive Lawrence, KS 66047	Common	50,000	*
Edward C. Carter 4100 Wimbledon Drive Lawrence, KS 66047	Common	60,000 (1)	1.1%
Kenneth L. Frahm Box 849 Colby, KS 67701	Common	40,000	*
Stephen J. Irsik, Jr. 05405 Six Road Ingalls, KS 67853	Common	69,000	1.3%
John G. Montgomery 510 Redbud Lane Junction City, KS 66441	Common	45,000	*
Harland E. Priddle 8214 South Haven Rd. Burrton, KS 67020	Common	40,000	*
Gary E. Yager 3521 SW Lincolnshire Topeka, KS 66614	Common	40,000	*

Name and Address of Beneficial Owner	Class of Stock	Amount and Nature of Beneficial Ownership	Percent of Class
First Alliance Corporation 2285 Executive Drive Suite 308 Lexington, KY 40505	Common	525,000 (2)	9.9%
All Directors and Officers as a Group		1,045,000	19.8%

*Indicates less than 1% ownership.

(1) Excludes 20,000 shares held by Becky Carter, Mr. Carter's wife, as to which Mr. Carter disclaims beneficial ownership.

(2) FAC is a financial services holding company based in Lexington, Kentucky, which wholly owns life insurance and venture capital subsidiaries. Messrs. Fink is an officer and director of FAC.

Item 12. Certain Relationships and Related Transactions

Messrs. Michael Fink and Rick Meyer and First Alliance Corporation are promoters of the Company. Collectively, they hold 1,176,000 shares of Common Stock in the Company for which they paid aggregate consideration of $117,600 or $.10 per share.

A portion of the Company s short-term investments consisting of certificates of deposit are purchased through Columbian Bank. Mr. Gary Yager, a Director of the Company, is the Chief Executive Officer of this bank.

A note payable, secured by the main office building was obtained through Columbian Bank. As noted above, Mr. Gary Yager, a Director of the Company, is the Chief Executive Officer of this bank.

The Company has contracted with First Alliance Corporation (FAC) of Lexington, Kentucky to provide 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; 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 $142,785, $117,246, and $60,531 of fees during 2001, 2000, and 1999, respectively. FAC owns approximately 9.9% of the Company s outstanding common stock as of December 31, 2001.

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Item 13. Exhibits and Reports on Form 8-K

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

(1) Financial Statements are attached and included herein on pages F-1 through f-26

(2) The exhibits listed in the Index to Exhibits appearing on Page 26.

(b) Reports on Form 8-K.
None

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SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST AMERICAN CAPITAL CORPORATION

By__/S/Rickie D. Meyer___ ____________________________________ Date 3/26/2002
Rickie D. Meyer, President/Director

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

By___/S/ Rickie D. Meyer_______________________________________ Date 3/26/2002
Rickie D. Meyer, President/Director

By___/S/Phillip M. Donnelly____________________________________ Date 3/26/2002
Phillip M. Donnelly, Secretary/Treasurer/Vice President/Director

By___/S/Michael N. Fink______________________ __________ Date 3/26/2002
Michael N. Fink, Chairman/Director

By_ /S/Daniel N. Biggs____ Date 3/26/2002
Daniel N. Biggs, Director

By__/S/Harland E. Priddle______________________________________ Date 3/26/2002
Harland E. Priddle, Director

By_ /S/Paul E. Burke Jr____ Date 3/26/2002
Paul E. Burke Jr, Director

By_ /S/Stephen J. Irsik Jr_____________________________________ Date 3/26/2002
Stephen J. Irsik Jr, Director

By__/S/John G. Montgomery______________________________________ Date 3/26/2002
John G. Montgomery, Director

By__/S/Gary E. Yager____ Date 3/26/2002
Gary E. Yager, Director

INDEX TO EXHIBITS

(Item 13(a))

The documents listed in the following table are filed as Exhibits in response to Item 13(a). Exhibits listed that are not filed herewith are incorporated by reference.

Exhibit No.	Description
3.1	Articles of Incorporation (1)
3.2	By-laws (2)
4	Instruments defining the rights of security holders, including indentures (1)
10	Material Contracts (1)
	(a) Lease
	(b) Advisory Board Contract
	(c) Service agreement between First Life America Corporation and First American Capital Corporation
	(d) Service agreement between First American Capital Corporation and First Alliance Corporation
	(e) Management employment agreements
	(f) Reinsurance agreement with BMA
11	Statement re computation of per share earnings (3)
21	Subsidiaries

(1) Filed as an Exhibit to the Registrant s amended Form 10-SB, filed on August 13, 1999, and incorporated herein by reference.

(2) Filed as an Exhibit to the Registrants Form 10-kSB, filed on March 26, 2001, and incorporated herein by reference.

(3) Note 2 in Notes to Consolidated Financial Statements included in this Report on Page F-10.

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EXHIBIT 21
SUBSIDIARIES OF FIRST AMERICAN CAPITAL CORPORATION

Name	Jurisdiction of Incorporation
First Life America Corporation	Kansas
First Capital Venture, Inc.	Kansas

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FIRST AMERICAN CAPITAL CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements	Page Numbers
Independent Auditors Report	F-2
Consolidated Balance Sheets as of December 31, 2001 and 2000	F-3
Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999	F-5
Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2001, 2000, and 1999	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000, and 1999.	F-8
Notes to Consolidated Financial Statements	F-10

Independent Auditors Report

Board of Directors and Shareholders
First American Capital Corporation

We have audited the accompanying consolidated balance sheets of First American Capital Corporation (a Kansas corporation) and subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of First American Capital Corporation and subsidiary as of December 31, 2001 and 2000, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KERBER, ECK & BRAECKEL LLP

Springfield, Illinois
March 20, 2002

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FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2001	December 31, 2000
Investments:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost, $8,313,448 in 2001 and $6,023,296 in 2000)	$ 8,605,901	$ 6,241,820
Policy loans	33,178	5,990
Notes receivable (net of valuation allowance of $4,406 in 2001 and $18,414 in 2000)	-	30,262
Real estate held for investment	274,564	-
Short-term investments	2,286,095	4,437,280
Total investments	11,199,738	10,715,352
Cash and cash equivalents	463,363	832,485
Investments in related parties	150,576	16,800
Accrued investment income	181,719	148,487
Accounts receivable	104,447	93,167
Accounts receivable from affiliate	124,881	-
Deferred policy acquisition costs (net of accumulated amortization of $1,259,744 in 2001 and $800,619 in 2000)	1,928,820	1,272,554
Property and equipment (net of accumulated depreciation of $129,977 in 2001 and $42,860 in 2000)	3,060,347	1,283,522
Other assets	26,072	18,387
Total assets	$ 17,239,963	$ 14,380,754

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FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 2001	December 31, 2000
Policy and contract liabilities:		
Annuity contract liabilities	$ 1,424,118	$ 486,533

Life policy reserves	1,522,794	919,635
Liability for policy claims	-	22,306
Policyholder premium deposits	166,182	74,469
Deposits on pending policy applications	172,616	76,379
Reinsurance premiums payable	32,142	28,561
Total policy and contract liabilities	3,317,852	1,607,883
Commissions, salaries, wages and benefits payable	84,038	114,018
Other liabilities	28,395	28,811
Note payable	1,967,328	698,018
Accounts payable to affiliate	18,022	18,047
Federal income taxes payable:		
Current	613	-
Deferred	533,793	361,403
Total liabilities	5,950,041	2,828,180
Shareholders' equity:		
Common stock, $.10 par value, 8,000,000 shares authorized; 5,438,985 shares issued and 5,273,985 shares outstanding in 2001; and 5,418,860 shares issued and 5,303,860 shares outstanding in 2000;	543,899	541,886
Additional paid in capital	12,328,617	12,230,005
Retained earnings - deficit	(1,529,613)	(1,176,785)
Accumulated other comprehensive income	191,277	144,226
Less: treasury shares held at cost (165,000 shares in 2001; and 115,000 shares in 2000)	(244,258)	(186,758)
Total shareholders' equity	11,289,922	11,552,574
Total liabilities and shareholders' equity	$ 17,239,963	$ 14,380,754

See notes to consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2001	2000	1999
Revenues			
Gross premium income	$ 2,450,932	$ 1,989,075	$1,102,785
Reinsurance premiums ceded	(78,203)	(54,162)	(12,498)
Net premium income	2,372,729	1,934,913	1,090,287
Net investment income	700,903	699,245	543,990
Net realized gain on disposal of assets	24,584	(908)	-
Rental income	106,963	30,565	-
Other income	13,969	-	-

Total revenue	3,219,148	2,663,815	1,634,277
Benefits and expenses			
Increase in policy reserves	603,159	545,337	368,804
Policyholder surrender values	46,754	14,887	54
Interest credited on annuities and premium deposits	78,989	21,683	3,236
Death claims	47,250	22,306	-
Commissions	849,576	863,159	631,929
Policy acquisition costs deferred	(1,115,390)	(1,158,212)	(901,613)
Amortization of deferred policy acquisition costs	459,124	565,869	234,522
Salaries, wages, and employee benefits	1,020,655	682,458	672,289
Miscellaneous taxes	51,910	6,360	24,921
Administrative fees - related party	142,785	117,246	60,531
Other operating costs and expenses	1,235,769	690,841	525,556
Total benefits and expenses	3,420,581	2,371,934	1,620,229
Income (loss) before income tax expense	(201,433)	291,881	14,048
Income tax expense	151,395	136,742	154,652
Net income (loss)	$ (352,828)	$ 155,139	$ (140,604)
Net income (loss) per common share - basic and diluted	$ (0.07)	$ 0.03	$ (0.03)

See notes to consolidated financial statements.

FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Years ended December 31,		
	2001	2000	1999
PREFERRED STOCK:			
Balance, beginning of year	$ -	$ -	$ 2,707,530
Sale of shares in public offering (8,394 shares in 1999)	-	-	41,970
Conversion of preferred to common shares (549,740 preferred shares to 2,198,960 common shares)	-	-	(2,748,700)
Call of preferred stock	-	-	(800)
Balance, end of year	-	-	0
COMMON STOCK:			
Balance, beginning of year	541,886	546,886	326,150
Sale of shares in public offering (8,394 shares in 1999)	-	-	840
Conversion of preferred to common	-	-	219,896
Common shares retired	-	(5,000)	-

Common shares issued (20,125 shares in 2001)	2,013	-	-
Balance, end of year	543,899	541,886	546,886
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of year	12,230,005	12,230,005	9,600,478
Sale of shares in public offering (8,394 shares in 1999)	-	-	167,041
Conversion of preferred to common	-	-	2,528,804
Call of preferred stock	-	-	(3,184)
Cost of public offering	-	-	(63,134)
Common shares issued (20,125 shares in 2001)	98,612	-	-
Balance, end of year	12,328,617	12,230,005	12,230,005

FIRST AMERICAN CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS EQUITY (continued)

	Years ended December 31,		
	2001	2000	1999
RETAINED EARNINGS-DEFICIT:			
Balance, beginning of year	$(1,176,785)	$(1,331,924)	$(1,191,320)
Net income (loss)	(352,828)	155,139	(140,604)
Balance, end of year	(1,529,613)	(1,176,785)	(1,331,924)
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Balance, beginning of year	144,226	(23,803)	-
Net unrealized gain (loss) on available-for-sale securities	47,051	168,029	(23,803)
Balance, end of year	191,277	144,226	(23,803)
TREASURY STOCK:			
Balance, beginning of year	(186,758)	(2,000)	(2,000)
Purchase of 95,000 common shares at $1.94 per share	-	(184,758)	-
Purchase of 50,000 common shares at $1.15 per share	(57,500)	-	-
Balance, end of year	(244,258)	(186,758)	(2,000)
Total shareholder' equity	$11,289,922	$11,552,574	$11,419,164

DISCLOSURE OF RECLASSIFICATION AMOUNT:

	2001	2000	1999
Unrealized holding gains (loss) arising during period	$ 64,463	$ 166,604	$ (23,803)
Less: reclassification adjustment for (gains) loss in net income	(17,412)	1,425	-
Net unrealized gains (loss) on securities	$ 47,051	$ 168,029	$ (23,803)

See notes to consolidated financial statements

FIRST AMERICAN CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2001	2000	1999
OPERATING ACTIVITIES:			
Net income (loss)	$ (352,828)	$ 155,139	$ (140,604)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Interest credited on annuities and premium deposits	82,838	21,683	3,236
Net realized investment (gains) losses	(25,618)	908	-
Provision for depreciation and amortization	87,698	15,666	14,916
Amortization of premium and accretion of discount on fixed maturity and short-term investments	(6,033)	(12,159)	(131)
Interest credited to certificates of deposit balances	(47,909)	(84,612)	-
Realized net (gain) loss on disposal of assets	1,034	(2,236)	-
Provision for deferred federal income taxes	143,692	126,978	155,850
Other	-	(5,000)	-
Increase in accrued investment income	(33,232)	(37,135)	(57,908)
(Increase) decrease in accounts receivable	(11,280)	43,397	(81,979)
Increase in accounts receivable from affiliate	(124,881)	-	-
Increase in deferred policy acquisition costs, net	(656,266)	(592,343)	(667,092)
Increase in policy loans	(27,188)	(5,990)	-
(Increase) decrease in other assets	(7,685)	3,085	(8,294)
Increase in policy reserves	603,159	545,337	368,804
Increase (decrease) in liability for policy claims	(22,306)	22,306	-
Increase (decrease) in deposits on pending policy applications	96,237	(145,034)	211,859
Increase in reinsurance premiums payable	3,581	16,716	11,845
Increase (decrease) in commissions, salaries, wages and benefits payable	(29,980)	46,212	64,974
Increase (decrease) in accounts payable to affiliate	(25)	8,887	(5,969)
Increase (decrease) in other liabilities	100,822	(23,370)	21,294
Net cash provided by (used in) operating activities	$ (226,170)	$ 98,435	$ (109,199)

	Years ended December 31, 2001	2000	1999
INVESTING ACTIVITIES:			
Purchase of available-for-sale fixed maturities	$(4,537,224)	$(3,543,284)	$(2,667,036)
Sale of available-for-sale fixed maturities	2,014,503	198,000	-

Additions to property and equipment, net	(1,865,557)	(939,585)	(340,778)
Purchase of real estate held for investment	(274,564)	-	-
Purchase of investments in affiliates	(133,776)	(16,800)	-
Changes in notes receivable, net	30,262	(30,262)	-
Short-term investments disposed, net	2,465,136	3,297,120	3,068,879
Net cash provided by (used in) investing activities	(2,301,220)	(1,034,811)	61,065
FINANCING ACTIVITIES:			
Proceeds from public stock offering	-	-	209,851
Call of preferred stock	-	-	(3,984)
Cost of stock offerings	-	-	(63,134)
Proceeds from note payable	1,301,982	698,018	-
Payments on note payable	(32,672)	-	-
Deposits on annuity contracts, net	862,297	457,424	11,227
Purchase of treasury stock	(57,500)	(184,758)	-
Policyholder premium deposits, net	84,161	4,292	63,140
Net cash provided by financing activities	2,158,268	974,976	217,100
Increase (decrease) in cash and cash equivalents	(369,122)	38,600	168,966
Cash and cash equivalents, beginning of period	832,485	793,885	624,919
Cash and cash equivalents, end of period	$ 463,363	$ 832,485	$ 793,885

See notes to consolidated financial statements

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FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FIRST AMERICAN CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

First American Capital Corporation (the Company) was incorporated on July 10, 1996 for the primary purpose of forming, owning and managing life insurance companies. On March 11, 1997, the Company s registration statement filed with the Office of the Kansas Securities Commissioner for a $12,500,000 intra-state public stock offering, which included a 10% over-sale provision (additional sales of $1,250,000), was declared effective. The Company completed its public stock offering on January 11, 1999, raising total capital of $13,750,000.

The Company has a wholly-owned insurance subsidiary, First Life America Corporation (FLAC), which is domiciled in Kansas. FLAC was incorporated on July 15, 1997 and capitalized with $1,200,000. On October 15, 1997, the Kansas Insurance Department (KID) granted FLAC a Certificate of Authority. On December 10, 1998, the Company provided FLAC with an additional $1,800,000 of capital. In 2000 and 2001, the Company contributed an additional $250,000 and $450,000 of capital, respectively. This has resulted in total capitalization of $3,700,000. Insurance operations commenced on November 19, 1998. Prior to the commencement of insurance operations, the Company was in the developmental stage.

The various insurance products currently being marketed by FLAC are as follows:

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

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

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

FLAT 10 (First Life Affordable Term) is a ten year term product issued from age 20 to 70. It has a re-entry provision allowing the current insured to re-qualify prior to each ten year period. The re-qualification is essentially re-underwriting including medical exams and inspections to determine if the risk has changed or remained the same. The policy expires automatically at age 95.

1. NATURE OF OPERATIONS (CONTINUED)

First Guard 10 is a ten year term product renewable to age 70 and convertible to age 60. Renewable means the policy is kept inforce as long as the premiums are paid, but the rates do change each 10 year period. Convertible means that prior to age 60 the policy can be converted to a permanent plan of insurance, whole life or universal life, but not term. The product is issued from age 18 to 60. The policy includes an accelerated death benefit rider. This rider provides that in the event that certain ailments or medical conditions strike, a 25% or 50% of the base policy coverage could be paid. The maximum benefit under this rider is $250,000. Payment of an accelerated benefit does reduce the future death benefit.

The Company formed First Capital Venture Inc. (FCVI), a venture capital subsidiary in October of 1998. FCVI has yet to be capitalized.

The Company helped form First Computer Services, LLC. ("FCS"), a Kansas partnership in June of 2001. FCS owns the computer hardware and software that runs the Company's policy administration, underwriting, claim processing, and accounting functions. During December of 2001, FCS was capitalized with $230,389, of which 50% was contributed by the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Principles of Consolidation

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

Management s Estimates

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Company classifies all of its fixed maturity investments as available-for-sale. Available-for-sale fixed maturities are carried at fair value with unrealized gains and losses, net of applicable taxes, reported in other comprehensive income. Policy loans are carried at unpaid balances. Cash equivalents consist of highly liquid investments with maturities of three months or less at the date of purchase and are carried at cost which approximates fair value. Notes receivable are reported at unpaid principal balance, net of allowance for uncollectible amounts. Short-term investments consist of investments with original maturities of three months to one year and are carried at cost which approximates fair value. Realized gains and losses on sales of investments are recognized in operations on the specific identification basis. Interest earned on investments is included in net investment income. Investments in related parties are reported at cost (see Note 5).

Property and Equipment

Property and equipment, including the home office building (see Note 6), are carried at cost less accumulated depreciation. Accumulated depreciation on equipment is calculated using the 200% declining balance method over the estimated useful life of the respective assets. Accumulated depreciation on equipment at December 31, 2001 and 2000, respectively, is $79,723 and $42,860. Accumulated depreciation on the office building and land improvements is calculated using the straight-line method. Accumulated depreciation of the office building and land improvements at December 31, 2001 is $50,254.

Office Lease

The Company is currently located in the new office building at 1303 SW First American Place, Topeka, Kansas 66604. During 2001, the Company terminated the previous office lease. Rent expense incurred under this previous agreement for the years ended December 31, 2001, 2000 and 1999 totaled $16,995, $37,788, and $33,517, respectively.

Deferred Policy Acquisition Costs

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

Life Policy Reserves

The liabilities for future policy benefits on the Company s life insurance products are computed using the net level premium method and assumptions as to investment yields, mortality, withdrawals and other assumptions, modified as necessary to reflect anticipated trends and to include provisions for possible unfavorable deviations. The assumptions utilized were 7.25% for investment yields, 1975-1980 select and ultimate tables for mortality, and Linton BA tables for withdrawal rates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Annuity Contract Liabilities

Annuity contract liabilities are computed using the retrospective deposit method and consist of policy account balances before deduction surrender charges, which accrue to the benefit of policyholders. Premiums received on annuity contracts are recognized as an increase in a liability rather than premium income. Interest credited on annuity contracts is recognized as an expense.

Liability for Policy Claims

Policy claim liabilities are based on reported death claims.

Policyholder Premium Deposits

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

Premiums

Life insurance premiums for limited payment contracts are recorded according to Statement of Financial Accounting Standard (SFAS) No. 97. Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. Any gross premium in excess of net premium is deferred and recognized in income in a constant relationship with insurance in force.

Federal Income Taxes

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

Reinsurance

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Common Stock and Preferred Stock

The common stock is fully-paid and non-assessable with dividend rights subject to the prior rights of the holders of preferred stock (prior to its conversion to common stock) and has full voting rights. The preferred stock had no voting rights, had a par and liquidation value of $5.00 per share of which dividends, if and when declared, were to be paid at the rate of 6% of the par value, and was convertible into four shares of common stock until July 11, 1999 (see conversion of preferred stock and call of preferred stock).

Conversion of Preferred Stock

The public offering was sold in units consisting of one share of common and one share of preferred stock. Each preferred share was convertible into four shares of common stock. Pursuant to the terms of the Subscription Agreements, a subscriber could elect, at the time of the sale, to convert their shares of preferred stock to shares of common stock upon issuance of stock certificates. The subscriber was allowed to revoke this conversion during a six month period starting on the date the offering was completed. The offering was completed on January 11, 1999 and conversions were allowed until July 11, 1999. On July 11, 1999, substantially all of the preferred shareholders converted their preferred shares to common shares.

Call of Preferred Stock

Before July 11, 1999, subscribers owning a total of 160 shares of preferred stock revoked the conversion election (discussed above). On December 10, 1999, the Company called those 160 shares of preferred stock at $5.00 per preferred share.

Net Earnings (Loss) Per Common Share

Net income (loss) per common share for basic and diluted earnings per share is based upon the weighted average number of common shares outstanding during each year. The weighted average outstanding common shares was 5,294,418, 5,387,767, and 3,046,043 for the years ended December 31, 2001, 2000 and 1999, respectively.

Comprehensive Income

SFAS No. 130 requires unrealized gains and losses on the Company s available-for-sale securities to be included in other comprehensive income.

3. INVESTMENTS

The amortized cost and fair value of investments in fixed maturities at December 31, 2001 and 2000 are summarized as follows:

'December 31, 2001:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agency	$3,879,669	$ 112,151	$ 3,171	$3,988,649
Corporate bonds	4,343,779	195,249	11,776	4,527,252
Certificates of Deposit	90,000	-	-	90,000
Total	$8,313,448	$ 307,400	$ 14,947	$8,605,901
December 31, 2000:				
U.S. Government Agency	$2,898,553	$ 84,248	$ -	$2,982,801
Corporate bonds	2,764,743	136,665	2,389	2,899,019
Certificates of Deposit	360,000	-	-	360,000
Total	$6,023,296	$ 220,913	$ 2,389	$6,241,820

The amortized cost and fair value of fixed maturities at December 31, 2001, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	3,860,963	4,129,653
Due after five years through ten years	4,452,485	4,476,248
	$ 8,313,448	$ 8,605,901

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

Included in investments are securities which have a fair value of $2,291,249 and $1,785,831 at December 31, 2001 and 2000, respectively, which are on deposit with various state insurance departments.

3. INVESTMENTS (CONTINUED)

During 2001, the Company had gross realized investment gains of $26,746. Investment gains were $1,251 and $0 during 2000 and 1999, respectively. Gross realized investment losses totaled $2,162, $2,159 and $0 in 2001, 2000 and 1999, respectively. These realized gains and losses during 2001 were the result of the sale of available for sale fixed maturity investments.

During July of 2000, advances to agents in the amount of $60,053 were converted to notes receivable to be collected over a three year period with a 9.5% annual interest rate. These notes included $41,054 of balances due from agents previously deemed to be uncollectible and expensed in prior years. A corresponding allowance for bad debts of $41,054 was established. During 2001 and 2000, payments of $44,270 and $0, respectively were received on the notes. Notes receivable, net of the valuation allowance of $4,406, is $0 at December 31, 2001.

The carrying value of short-term investments approximates their fair value. At December 31, 2001 and 2000 the fair value of short-term investments was $2,286,095 and $4,437,280, respectively.

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

Following are the components of net investment income for the years ended December 31, 2001, 2000 and 1999:

	Years ended December 31,		
	2001	2000	1999
Fixed maturities	$482,201	$324,086	$ 18,079
Notes receivables	3,065	2,581	-
Short-term and other investments	218,936	388,667	530,723
Gross investment income	704,202	715,334	548,802
Investment expenses	(3,299)	(16,089)	(4,812)
Net investment income	$700,903	$699,245	$543,990

4. CONCENTRATIONS OF CREDIT RISK

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

5. 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 December 31, 2001, MCC had raised $850,000 from the sale of private placement shares and $1,120,100 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 December 31, 2001, ASCC had raised $239,000 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 $12,000,000. 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.

During 2001, the Company purchased a 50% interest in First Computer Services, LLC ("FCS"). FCS owns the computer hardware and software that operates a Company 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. As of December 31, 2001, the carrying value of the FCS investment was $108,776. This amount represents an initial investment of $115,195 reduced by a net operating loss of $6,419. Selected financial data for FCS is listed below.

Total Assets:	$217,552
Total Liabilities:	-
Total Liabilities and Equity:	217,552
Loss from Operations:	(12,838)

6. 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 December 31, 2001 totaled $2,963,004, of which $357,675 was related to land cost and preparation, and $2,605,329 was related to building construction. Also included in total property of $2,963,004 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.

6. PROPERTY AND EQUIPMENT (CONTINUED)

On May 1, 2001, the Company relocated its home office to the newly constructed building. Effective July 1, 2001 , 10,000 square feet of office space has been leased for five years. The remaining 2,500 square feet that is available for lease is being leased on a month-to-month basis.

The components of property and equipment as of December 31, 2001 and 2000 are as follows:

	2001	2000
Property (home office building)	$2,963,004	$1,247,740
Less: Accumulated depreciation	(50,254)	-
Net Property	2,912,750	1,247,740
Equipment	227,320	78,642
Less: Accumulated depreciation	(79,723)	(42,860)
Net equipment	147,597	35,782
Property and equipment, net	$3,060,347	$1,283,522

7. 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 five years of existence. Federal income tax expense for the years ended December 31, 2001, 2000, and 1999 consisted of the following:

	Years ended December 31,		
	2001	2000	1999
Current	$ 7,703	$ 9,764	$ (1,198)
Deferred	143,692	126,978	155,850
Federal income tax expense	$151,395	$136,742	$154,652

Federal income tax expense differs from the amount computed by applying the statutory federal income tax rate of 35% in 2001 and 34% in 2000 and 1999 as follows:

	Years ended December 31,		
	2001	2000	1999
Federal income tax expense (benefit) at statutory rate	$(70,502)	$ 99,240	$ 4,776
Small life insurance company deduction	(29,936)	(30,118)	-
Increase in valuation allowance	254,674	83,561	187,869
Surtax exemptions	(9,650)	(10,315)	-
Other	6,809	(5,626)	(37,993)

Federal income tax expense	$151,395	$136,742	$154,652

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

	December 31,	
	2001	2000
Deferred tax liability:		
Due and deferred premiums	$ 19,488	$ 15,936
Deferred policy acquisition costs	554,006	362,525
Net unrealized investment gains	102,996	74,298
Total deferred tax liability	676,490	452,759
Deferred tax asset:		
Policy reserves	131,447	82,446
Reinsurance premiums	11,250	8,910
Net operating loss carry forward	889,591	634,917
Alternative minimum tax credit carry forward	1,198	1,198
Total deferred tax asset	1,033,486	727,471
Valuation allowance	(890,789)	(636,115)
Net deferred tax asset	142,697	91,356
Net deferred tax liability	$ 533,793	$ 361,403

The Company has net operating loss carry forwards of approximately $2,541,589 expiring in 2011 through 2021. These net operating loss carry forwards are not available to offset FLAC income. FLAC has alternative minimum tax credit carry forwards of $1,198, which have no expiration date. Federal income taxes paid were $20,000 in 1999. There were no taxes paid in 2001 and 2000.

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8. NOTE PAYABLE

On July 20, 2001, the Company borrowed $2 million from Columbian Bank and Trust Company secured by its home office building (See Note 6). The note will mature on July 15, 2016. 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 at that time. The company has paid interest of $93,634 related to this note during 2001.
Required future principle payments are as follows:

Year	Principal Payment
2002	78,484
2003	84,257
2004	90,086
2005	97,081
2006	104,223
Thereafter	1,513,197
Total	1,967,328

9. SHAREHOLDERS EQUITY AND STATUTORY ACCOUNTING PRACTICES

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

Net income for 2001, 2000, and 1999 and capital and surplus at December 31, 2001, 2000, and 1999 for the Company s insurance operations as reported in these financial statements prepared in accordance with GAAP as compared to amounts reported in accordance with SAP prescribed or permitted by the KID are as follows:

	GAAP		SAP	
	Net Income (loss)	Capital and Surplus	Net Income (loss)	Capital and Surplus
2001	381,230	4,922,152	17,465	3,698,742
2000	400,907	4,046,552	68,787	3,252,279
1999	263,432	3,317,886	(100,572)	2,880,773

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

Statutory restrictions limit the amount of dividends which may be paid by FLAC to the Company. Generally, dividends during any year may not be paid without prior regulatory approval, in excess of the lesser of (a) 10% of statutory shareholders surplus as of the preceding December 31, or (b) statutory net operating income for the preceding year. In addition, FLAC must maintain the minimum statutory capital and surplus, $1,200,000, required for life insurance companies domiciled in Kansas.

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

10. REINSURANCE

In order to reduce the risk of financial exposure to adverse underwriting results, insurance companies reinsure a portion of their risks with other insurance companies. FLAC has entered into agreements with Business Men's Assurance Company of America (BMA) of Kansas City, Missouri, as well as Optimum Re Insurance Company of Dallas, Texas, to reinsure portions of the life insurance risks it underwrites. Pursuant to the terms of the agreements, FLAC retains a maximum of $50,000 on any one insured. Currently, insurance ceded to Optimum Re Insurance Company is limited to the 10-year term policies. At December 31, 2001, 2000 and 1999, respectively, FLAC had ceded amounts totaling $31,878,00, $24,259,688 and $8,755,634 of ordinary business and $31,027,000, $26,520,000 and $17,100,000 of accidental death benefit risk

Pursuant to the terms of the agreement with BMA, FLAC generally pays no reinsurance premiums on first year individual business. However, SFAS No. 113 requires the unpaid premium to be recognized as a first year expense and amortized over the estimated life of the reinsurance policies. FLAC records this unpaid premium as Reinsurance premiums payable in the accompanying balance sheet and recognized as Reinsurance premiums ceded in the accompanying income statement. At December 31, 2001 and 2000, respectively, the unpaid reinsurance premiums net of amortization totaled $32,142 and $28,561. To the extent that the reinsurance companies are unable to fulfill their obligations under the reinsurance agreements, FLAC remains primarily liable for the entire amount at risk. During 2001, 2000 and 1999, respectively, FLAC paid $73,492, $37,446 and $653 of reinsurance premiums.

11. 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 retains 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 $704,151, $562,686 and $275,375 for the years ended December 31, 2001, 2000 and 1999, respectively.

Effective January 1, 2002, FLAC entered into a new service agreement with the Company. Under the terms of the agreement, the Company provides personnel, facilities, and services incident to the operations of FLAC. FLAC does not have any employees. Services performed pursuant to the agreement are underwriting, claim processing, accounting, policy processing and other services necessary for FLAC to operate. The agreement is effective until either party provides 90 days written notice of termination. FLAC pays fees equal to the Company's cost pf providing such services, including an appropriate allocation of the Company's overhead expenses, in accordance with generally accepted accounting principles FLAC still bears all direct selling costs which include agent recruiting, training and licensing; agent commissions; any benefits or awards directly for or to agents or management including the cost of any life or health insurance; and any taxes (federal, state or county) directly related to the business of FLAC. Additionally, FLAC is responsible for any reinsurance premiums; legal expenses related to settlement of claims; state examination fees; directors fees and directors liability insurance; interest on indebtedness;

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11. RELATED PARTY TRANSACTIONS (CONTINUED)

costs related to mergers or acquisitions and costs related to fulfilling obligations of the life insurance and annuity contracts written by the agents of FLAC.

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 $142,785, $117,246, and $60,531 of fees during 2001, 2000, and 1999, respectively. FAC is also a shareholder of the Company.

During 2001, the Company purchased a 50% interest in First Computer Services, LLC ("FCS"). FCS owns the computer hardware and software that operates a Company policy administration, underwriting, claim processing, and accounting system. Rick Meyer and Mike Donnelly, officers of the Company, are also officers of FCS. The Company's initial investment in FCS was $115,195. FAC owns the remaining 50% of FCS. Refer to Note 5 for further information on the FCS investment.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Fixed Maturities

Fixed maturities are carried at fair value in the accompanying consolidated balance sheets. The fair value of fixed maturities are based on quoted market prices. At December 31, 2001 and 2000, respectively, the fair value of fixed maturities was $8,605,901 and $6,241,820, respectively.

Short-term Investments

The carrying value of short-term investments approximates their fair value. At December 31, 2001 and 2000 the fair value of short-term investments was $2,286,095 and $4,437,280, respectively.

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate their fair values. At December 31, 2001 and 2000, the fair value of cash and cash equivalents was $463,363 and $832,485, respectively.

Policy Loans

The carrying value of policy loans approximates their fair value. At December 31, 2001 and 2000, the fair value of policy loans was $33,178 and $5,990, respectively.

Investments in Related Parties

The Company holds investments in related parties of $150,576 and $16,800 at December 31, 2001 and 2000, respectively. Of these amounts, $41,800 and $16,800 represent organizer shares purchased in the initial private placement of the respective entity at December 31, 2001 and 2000, respectively . These investments are restricted under Rule 144 of the Act. There are no quoted market prices for these investments. These investments are carried at cost in the accompanying consolidated balance sheets.

The remaining $108,776 at December 31, 2001 represents the Company's investment in First Computer Servcies, LLC ("FCS"). The company uses the equity method to account for this investment. Refer to Note 5 for more information.

Notes Receivable

The carrying value of notes receivable approximates their fair value. At December 31, 2001 and 2000, the fair value of notes receivable was $0 and $30,262, respectively.

13. COMPREHENSIVE INCOME

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

The components of comprehensive income (loss) along with the related tax effects are presented for 2001, 2000, and 1999.

	2001	2000	1999
Unrealized gain on available-for-sale securities:			
Unrealized holding gain (loss) during the period	$ 75,751	$254,589	$ (36,065)

Tax benefit (expense)	(28,700)	(86,560)	12,262
Other comprehensive income	$ 47,051	$168,029	$ (23,803)
Net income (loss)	$(352,828)	$155,139	$(140,604)
Other comprehensive income (loss) net of tax effect:			
Unrealized investment gain (loss)	47,051	168,029	(23,803)
Comprehensive income (loss)	$(305,778)	$323,168	$(164,407)
Net income (loss) per common share-basic and diluted	$ (0.06)	$ 0.06	$ (0.03)

14. SEGMENT INFORMATION

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, become effective for 1998 and superseded SFAS No. 14. SFAS No. 131 requires a management approach (how management internally evaluates the operating performance of its business units) in the presentation of business segments. The segment data that follows has been prepared in accordance with SFAS No. 131. The operations of the Company and its subsidiaries have been classified into two operating segments as follows: life and annuity insurance operations and corporate operations. Segment information as of December 31, 2001, 2000 and 1999 and for the years then ended is as follows:

	Years ended December 31,		
	2001	2000	1999
Revenues			
Life and annuity insurance operations	$ 2,704,352	$ 2,181,628	$ 1,243,323
Corporate operations	514,796	482,187	390,954
Total	$ 3,219,148	$ 2,663,815	$ 1,634,277
Income/(loss) before income taxes:			
Life and annuity insurance operations	$ 532,626	$ 537,649	$ 418,084
Corporate operations	(734,059)	(245,768)	(404,036)
Total	$ (201,433)	$ 291,881	$ 14,048
Depreciation and amortization expense:			
Life and annuity insurance operations	$ 459,124	$ 565,869	$ 234,522
Corporate operations	87,698	15,666	14,916
Total	$ 546,822	$ 581,535	$ 249,438
Assets:			
Life and annuity insurance operations	$ 8,795,709	$ 6,024,504	$ 4,255,380
Corporate operations	8,444,254	8,356,250	8,125,955

Total	$17,239,963	$14,380,754	$12,381,335
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