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SUMMIT LIFE CORP  
Form 10KSB  
April 16, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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 000-25253

SUMMIT LIFE CORPORATION

-----  
(Name of small business issuer in its charter)

OKLAHOMA

73-1448244

-----  
(State or other jurisdiction  
of incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

3021 Epperly Dr., P.O. Box 15808, Oklahoma City, Oklahoma

73155

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(Address of principal executive offices)

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(Zip Code)

Issuer's telephone number: (405) 677-0781

Securities registered pursuant to Section 12(b) of the Act: None

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Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, \$.01 par value per share

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(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period 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  
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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 will not 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



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"Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Report, including, without limitation, statements regarding the Company's future financial position, business strategy, budgets, projected costs and plans and objectives of Management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate" or "believe" or the negative thereof or variations thereon or similar terminology. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Such statements are based upon numerous assumptions about future conditions which may ultimately prove to be inaccurate and actual events and results may materially differ from anticipated results described in such statements. Important factors that could cause actual results to differ materially from the Company's expectations ("cautionary statements") include the risks inherent generally in the insurance and financial services industries, the impact of competition and product pricing, changing market conditions, the risks disclosed in the Company's Annual Report on Form 10-KSB for the Year Ended December 31, 2001 under "ITEM 6--Management's Discussion and Analysis or Plan of Operation," and elsewhere in this Report. All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. The Company assumes no duty to update or revise its forward-looking statements based on changes in internal estimates or expectations or otherwise. As a result, the reader is cautioned not to place reliance on these forward-looking statements.

### PART I

#### ITEM 1. DESCRIPTION OF BUSINESS

##### General

Summit Life Corporation, an Oklahoma corporation formed in 1994 (the "Company"), is an insurance holding company. The Company's primary focus is its life insurance operations.

The Company's growth has been fueled primarily through acquisitions, starting in 1994 when it acquired an Oklahoma-chartered life insurance company. Since then, the Company has acquired three additional life insurance companies in Texas and Louisiana. The Company consolidated its operations in 1999 by combining three of the four companies into one company operating in both Texas and Oklahoma. The fourth company, which operated in Louisiana, was also sold in 1999.

On August 1, 2001, the Company's wholly owned subsidiary, Great Midwest Life Insurance Company ("Great Midwest"), acquired from Presidential Life Insurance Company of Dallas, Texas ("Presidential"), a block of approximately 1,400 life insurance policies with estimated annual premium of \$120,000. Liabilities of \$712,000 and assets of \$634,392 were transferred to Great Midwest for a purchase price of \$77,608.

The Company's net premium revenue increased from \$152,624 in 2000 to \$359,533 in 2001, and the Company believes that continued internal growth, coupled with strategic acquisitions made available by the current consolidation of the insurance industry, present the Company with good opportunities to achieve its operating strategy. SEE "ITEM 6--MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION."

The Company's operating strategy is to continue to make acquisitions of small, marginally profitable or unprofitable insurance companies, consolidate and streamline the administrative functions of these small companies, improve

their investment yields through active asset management in a centralized investment operation and eliminate their unprofitable products and distribution channels. The Company believes that it is particularly well suited to make such acquisitions and to capitalize on the cost savings that can be realized by consolidating the administrative functions of the acquired companies.

As of December 31, 2001, the Company had approximately 2,150 life insurance policies and annuity contracts outstanding and individual life insurance in force of approximately \$27 million. As of December 31, 2001, the Company had total assets of approximately \$6.84 million and total shareholders' equity of approximately \$1.27 million.

The Company's principal office is located at 3021 Epperly Dr., P.O. Box 15808, Oklahoma City, Oklahoma, 73155, and its telephone number is (405) 677-0781.

#### History

The Company was formed in 1994 and, since inception, has acquired four life insurance companies with operations in, variously, Oklahoma, Texas and Louisiana, and has acquired one block of business. Three of these companies were combined in 1999 to form the Company's flagship company, Great Midwest, a Texas-domiciled life insurance company operating in Texas and Oklahoma. The Louisiana-domiciled subsidiary was sold in December 1999 as a result of the Company's decision to concentrate its focus on Oklahoma and Texas.

#### Recent Events

The Company began a public offering of 1,000,000 shares of its common stock in May 2001. The offering was terminated March 31, 2002. A total of 445,200 shares of common stock were sold pursuant to the offering..

#### Operations

#### Insurance Products

##### General

Through its insurance subsidiary, the Company offers a portfolio of permanent and term life products as well as flexible premium and single premium annuities designed to meet the needs of its customers for supplemental retirement income, estate planning and protection from unexpected death. The target niche is middle-income individuals, families and small businesses throughout its marketing territory. The Company's business strategy is to continue to expand its marketing territory through subsidiary growth and/or company acquisition, and to increase shareholder value by managing certain operating fundamentals inherent to the insurance business. The Company intends to utilize these operating fundamentals to differentiate its products by maintaining its position as a low-cost producer that provides high-value products to its life insurance and annuity customers, while also providing superior service to both agents and customers. In addition, the Company intends to continue to seek new business opportunities through mergers, acquisitions and strategic alliances.

The Company has realized very low entry costs in its purchases of small insurance companies. The Company minimizes operating expenses by centralizing, standardizing and more efficiently performing many functions common to most life

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insurance companies. The operations performed by the Company include underwriting and policy administration, accounting and financial reporting, marketing, regulatory compliance and asset management. The Company believes that it is currently utilizing just over 5% of its information technology systems capability in the administration of these back office operations.

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### Factors Affecting Insurance Operations

The Company believes that its operating performance is significantly impacted by four basic elements: mortality, persistency, operating expenses and investment yield. The Company believes that its results for each of these four elements for the last several years have been good.

The Company believes its conservative risk selection practices and its disciplined field underwriting have resulted in the Company realizing favorable mortality experience for the last several years. The Company fully underwrites each regular application and has no group underwriting and maintains very little guaranteed issue business.

The Company has consistently achieved favorable persistency on its life insurance products (i.e., lower lapse rates). This high persistency has been achieved by providing quality service to its policyholders, incentives to agents by, among other things, grading production bonuses by actual persistency, paying persistency bonuses, awarding recognition for both agency and agent persistency achievements, and monitoring agency persistency on a quarterly and annual basis. Persistency is the extent to which policies sold remain in force. Policy lapses over those actuarially anticipated could have an adverse effect on the financial performance of the Company. Policy acquisition costs are deferred and expensed over the premium-paying period of a policy. Excess policy lapses, however, cause the immediate expensing or amortizing of deferred policy acquisition costs. Provided the Company maintains lapse and surrender rates within its pricing assumptions for its insurance policies, the Company believes that the present lapse and surrender rate should not have a material adverse effect on the Company's financial results. For the years ended December 31, 2000 and 2001, the Company's lapse ratio on ordinary business was 8% and 3%, respectively.

The Company has aggressively managed its cost structure, while realizing certain operating efficiencies from minimal personnel and reduced overall costs as a result of the various acquisitions it has effected since 1994. Other factors contributing to the Company's lower cost structure include: a flat organizational structure which allows the Company to be responsive to changing business conditions; the location of the Company in a geographic area which provides lower cost operations than found in many other areas of the country; a well-trained experienced workforce; and efficient use of technology.

The Company attempts to maintain competitive portfolio yields, while at the same time maintaining a conservative approach with respect to its investment criteria. Ultimately, the Company's objective with respect to its insurance operations is to price each of its products to earn an adequate margin between the return to the policyholder and the return earned by the Company on its investments. To the extent that the Company is able to realize higher portfolio yields on its investments, it will be in a position to offer more attractive pricing on its insurance products.

### Fixed Rate Annuities

Annuities are long term savings vehicles that are particularly attractive

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to customers over the age of 50 who are or may be planning for retirement and seek a secure, tax deferred savings product. The individual annuity business is a growing segment of the savings and retirement market and among the fastest growing segments of the life insurance industry. Annuity products currently enjoy an advantage over certain other retirement savings products because the payment of federal income taxes on interest credited on annuity policies is deferred during the investment accumulation period.

Through GMLIC, the Company markets, issues and administers a variety of fixed rate deferred annuity products, including single premium and flexible premium deferred annuities. In a fixed rate deferred annuity, the insurance company assumes the risk of interest fluctuations and pays a minimum fixed rate of interest, usually 3% to 4% per year, with an excess amount payable based on investment yields of its investment portfolio. Single premium deferred annuities ("SPDAs"), in general, are savings vehicles in which the policyholder makes a single premium payment to an insurance company. The insurance company credits

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the account of the annuitant with earnings at an interest rate (the "crediting rate"), which is declared by the insurance company from time to time and may exceed but may not be lower than any contractually guaranteed minimum crediting rate. All of the Company's annuities have a minimum guaranteed crediting rate. The Company also offers flexible premium deferred annuities ("FPDAs"). FPDAs are deferred annuities in which the policyholder may elect to make more than one premium payment. The Company currently does not offer variable annuity products.

The Company periodically establishes an interest-crediting rate for its new annuity policies. In determining the Company's interest crediting rate on new policies, management considers the competitive position of the Company, prevailing market rates and the profitability of the annuity product. The Company maintains the initial crediting rate for a minimum period of one year. Thereafter, the Company may adjust the crediting rate at its discretion, although historically such adjustments have generally been made on a quarterly basis. In establishing renewal-crediting rates, the Company primarily considers the anticipated yield on its investment portfolio. Interest rates credited on the Company's in force annuity policies ranged from 3.0% to 7.8% at December 31, 2001. All of the Company's annuity products have minimum guaranteed crediting rates of 3.0% for the life of the policy. At December 31, 2001, more than 98% of the Company's in force annuity policies were beyond the initial crediting rate period.

Certain of the Company's annuity policies have a bonus-crediting rate for the first year of the policy, which typically exceeds the annual crediting rate by 1% to 3%. The bonus and the base crediting rates are fully disclosed in the annuity contract. The Company incorporates a number of features in its annuity products designed to reduce the early withdrawal or surrender of the policies and to partially compensate the Company for lost investment opportunities and costs if policies are withdrawn early. Certain of the Company's deferred annuity contracts provide for penalty free partial withdrawals, typically up to 10% of the accumulation value annually. Surrender charge periods on annuity policies currently range from five years to the term of the policy, with the majority of such policies being issued with a surrender charge period of more than seven years. The average length of the surrender period on the Company's deferred annuity policies issued during 2000 and 2001 was eight years. The initial surrender charge on annuity policies generally is 8% of the premium and decreases over the surrender charge period (of up to nine years). At December 31, 2001, 19% of the Company's annuity liabilities were subject to a surrender charge of 5% or more.

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### Tax Qualified Annuities

General. The Company also markets to employees of public schools and certain other tax-exempt organizations certain tax qualified retirement annuities that meet the requirements of Section 403(b) of the Internal Revenue Code of 1986 and are known as "tax sheltered annuities" or "403(b) annuities" ("TSAs"). Teachers, school employees and employees of other tax-exempt organizations purchase TSAs through automatic payroll deductions. TSA products tend to be purchased by customers who are younger than purchasers of the Company's other annuity products. Therefore, the Company's specialty TSA products tend to incorporate features that are attractive to customers in this younger age bracket who have longer to accumulate before retirement, such as combining a more competitive crediting interest rate offset with a longer surrender charge period. The Company believes that the market for TSAs is attractive because TSAs broaden its customer base and provide an ongoing source of premium renewals. Additionally, because of their tax features and transfer restrictions, TSAs are less likely to be surrendered, making them a more stable and dependable source of profits for the Company. In addition to TSAs, the Company also sells other tax qualified retirement annuities such as Individual Retirement Annuities and other Employee Pension type programs. Tax qualified retirement annuity values totaled almost \$1,100,000 or approximately 27% of the total annuities sold by the Company since inception.

Favorable Tax Treatment. Under the Internal Revenue Code ("Code"), income taxes otherwise payable on investment earnings are deferred on earnings unpaid during the accumulation period of certain life insurance and annuity policies. This favorable tax treatment may give the Company's annuity policies a

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competitive advantage over other investment or savings vehicles that do not offer this benefit. To the extent that the Code may be revised to eliminate or reduce the tax-deferred status of life deferred payment annuity products, or to establish a tax-deferred status to any competing policies, the Company's competitive advantage may be adversely affected.

### Traditional Life Insurance

Term Life. The Company's subsidiary offers a low cost 10-year level term life insurance product with level premiums for periods of ten years and an annually renewable level term product which provides for increasing premiums in five year durations, both utilizing a low indeterminate premium structure afforded to it by its primary reinsurance company. The Company generally retains a small fixed portion of the insurance risk, then sells or cedes a portion of its risks to its reinsurer, who in turn pays an additional allowance or commission to the Company. This allows the Company to transfer a portion of its risk and continue to grow its premium revenues and surplus. These term products are designed for and sold to individuals ages 20 through 60 and terminate at age 70. While term life normally is bought very inexpensively by consumers, it is also priced by companies using historical data that illustrates certain of these coverages, when using adequate reinsurance, will not result in adverse claims.

Whole Life. The Company's subsidiary markets low cost guaranteed premium products in which premiums are payable for the life of the insured and insurance protection (upon certain conditions being met) is afforded for the insured's lifetime. The premium paid for such whole life policies is generally higher than the premium for comparable amounts of term insurance in the policy's early years but is generally lower in the later years of the policy's life. The policyholder may borrow against the policy, provided there are sufficient cash values, at a rate that is comparable or lower than other conventional lending sources. The

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Company generally holds all cash values and if a death occurs it pays death claims then collects from the reinsurer to recover the excess of its retention limits and benefits paid.

The Company's life insurance subsidiaries have sold annuity products since 1994. Beginning in January 1999 with the purchase of GMLIC and the consolidation of the other subsidiaries, the life insurance products of GMLIC were combined with annuity products from the other subsidiaries. GMLIC previously offered a graded benefit life product that was offered on an individual basis in amounts of \$1,000 to \$5,000, without evidence of insurability. Benefits paid are less than the face amount of the policy during the first two years, except in cases of accidental death.

### Insurance Underwriting

The Company follows detailed, uniform underwriting practices and procedures in its insurance business which are designed to assess risks before issuing coverage to qualified applicants. The Company contracts with professional underwriters who evaluate policy applications on the basis of information provided by applicants and others. Management believes that its actual mortality results are attributable to, among other things, the geographic location of its customer base in rural and suburban areas (as opposed to urban areas), as well as its consistent application of appropriate underwriting criteria to the processing of new customer applications.

### Reinsurance

Consistent with the general practice of the life insurance industry, the Company's subsidiary reinsures portions of coverage provided by their insurance products with other insurance companies under agreements of indemnity reinsurance.

Indemnity reinsurance agreements are intended to limit a life insurer's maximum loss on a large or unusually hazardous risk or to obtain a greater diversification of risk. Indemnity reinsurance does not discharge the original insurer's primary liability to the insured. The Company's reinsured business is

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ceded to numerous reinsurers, and the Company believes the assuming companies are able to honor all contractual commitments, based on the Company's periodic reviews of their financial statements, insurance industry reports and reports filed with state insurance departments.

As of December 31, 2001, the policy risk retention limit of the Company's subsidiary on the life of any one individual did not exceed \$5,000; reinsurance ceded by the Company's subsidiary represented 87% of gross combined life insurance in force. At December 31, 2001, the Company's largest reinsurer, Optimum Re Insurance Company, reinsured approximately 98% of the \$27 million of the total insurance in force.

### Investments

Investment activities are an integral part of the Company's business; investment income is a significant component of the Company's revenues. Upon the purchase by a policyholder of an annuity or life contract and payment of the premium, the policy is issued and delivered to the new policyholder. The funds are then invested as the Company determines based on certain guidelines including those set by the National Association of Insurance Commissioners ("NAIC") as to the percentage of investments that are placed in any one category



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of investments. The Company has historically invested a majority of its available assets in securities that are issued, secured, guaranteed or backed by federal, state or local governments, their agencies or instrumentalities.

Profitability is significantly affected by spreads between interest yields on investments and rates credited on insurance liabilities. Although all credited rates on single premium deferred annuities and flexible premium deferred annuities may be changed as often as quarterly, after their first year, changes in credited rates may not be sufficient to maintain targeted investment spreads in all economic and market environments. In addition, competition and other factors, including the impact of the level of surrenders and withdrawals, may limit the Company's ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions. For the year ended December 31, 2001, the average gross yield of the Company's invested assets was approximately 6.0% and the average credited rate was 5.0%.

The Company balances the duration of its invested assets with the expected duration of benefit payments arising from insurance liabilities. At December 31, 2001, the adjusted modified duration of debt securities and short-term investments was 6.0 years. At December 31, 2001, the average duration of the Company's insurance liabilities was 7.0 years.

For information regarding the composition and diversification of the investment portfolio of the Company and its subsidiary, see Note B to the Company's Consolidated Financial Statements.

### Acquisitions and Consolidations

#### General

The Company's operating strategy is to continue to make acquisitions of small, marginally profitable or unprofitable insurance companies, consolidate and streamline the administrative functions of these small companies, improve their investment yields through active asset management by a centralized investment operation and eliminate their unprofitable products and distribution channels. Because of their small size, such companies are often overlooked as potential acquisition candidates by other companies in the industry. The Company believes that it is particularly well suited to make such acquisitions and to capitalize on the cost savings that can be realized by consolidating the administrative functions of the acquired companies.

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### Historical Acquisitions

The Company's growth to date has been fueled primarily through acquisitions. Since 1994, the Company has acquired four life insurance companies. During 1999, three of these companies were combined, either by merger or through transfer of operations, into Great Midwest, while a fourth company was sold. The Company intends to continue its strategy of pursuing similar acquisitions of blocks of insurance business and small insurance companies and other insurance-related opportunities. Management believes that such acquisitions will continue to lower unit costs by increasing the number of policies and the amount of premiums over which fixed expenses are spread.

### Targeted Future Acquisitions

The Company has typically sought companies that are underdeveloped, overly burdened with expenses or owned by financially troubled companies. The Company believes that the small insurance company marketplace is highly fragmented and

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faces numerous hurdles to its survival and growth over the coming years. Some of those hurdles include technological obsolescence, the need for additional capital and surplus due to the changing regulatory environment and lack of sufficient exit strategies for owners of small, closely-held companies. The Company believes these factors have created acquisition opportunities often overlooked by the large insurance companies. The Company intends to capitalize on these opportunities as it continues to execute its growth plans. The Company has no agreements, understandings or arrangements with respect to any other acquisitions at this time.

### Employees

As of December 31, 2001, the Company had five full-time employees, most of whom perform both managerial and administrative functions. The Company's employees also perform services for Great Midwest, which has no employees. The Company's controller function is outsourced. It can be anticipated that the Company will have a need for more employees as the size of its business grows. None of the Company's employees is represented by a labor union. Management believes that the Company's relations with its employees are good.

### Marketing

The Company's target markets are individuals in middle-income brackets in addition to small businesses in the states of Texas and Oklahoma. The Company believes that this market is severely underserved as more major companies target their products and agency force toward the upper income and large policy sales. Many large companies no longer offer insurance in face amounts under \$100,000. Although the Company does write multi-million dollar policies, its average life policy is approximately \$13,000.

The pricing of the Company's products is generally determined by reference to actuarial calculations and statistical assumptions principally relating to mortality, persistency, investment yield assumptions, estimates of expenses and management's judgment as to market and competitive conditions. The premiums and deposits received, together with assumed investment earnings, are designed to cover policy benefits, expenses and policyowner dividends plus return a profit to the Company. These profits arise from the margin between mortality charges and insurance benefits paid, the margin between actual investment results and the investment income credited to policies (either directly or through dividends to policyowners) and the margin between expense charges and actual expenses. The level of profits also depends on persistency because policy acquisition costs, particularly agent commissions, are recovered over the life of the policy. Dividends and interest credited on policies may vary from time to time reflecting changes in investment, mortality, persistency, expenses and other factors. Interest rate fluctuations have an effect on investment income and may have an impact on policyowner behavior. Increased lapses in policies may be experienced if the Company does not maintain interest rates and dividend scales that are competitive with other products in the marketplace.

The Company markets its products primarily through personal producing general agents ("PPGAs") and small independent property and casualty agencies. The PPGAs include the Company's founders and principal stockholders, James L. Smith and Charles L. Smith. James L. Smith and Charles L. Smith are the sole stockholders of the Smith Agency, which undertakes life insurance and financial planning for estates, trusts and corporations. The Smith Agency was and is presently a general agent for several insurance companies, including the Company. The Smith Agency has sold a majority of the Company's deferred annuities since the Company's inception. Additionally, the companies acquired by

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the Company generally have in place PPGAs who are capable and qualified to generate the sales desired by the Company, thereby eliminating part of the expense of recruiting and training a new agency force.

### Competition

The life insurance business is highly competitive and consists of a number of companies, many of which have greater financial resources, longer business histories and more diversified lines of insurance products than the Company. The Company may encounter increased competition from existing competitors or new market entrants, some of which may be significantly larger and have greater business resources. Companies typically compete for policyholders on the basis of benefits, rates, financial strength and customer service and compete for agents and brokers on the basis of commissions, financial strength and customer service. The Company, although smaller than most of its competitors, provides competitive benefits and rates. The Company believes that its ability to administer its functions at a lower cost allows it to maintain low internal cost products.

The Company has identified additional areas where it has very little competition due to the size of the Company as well as the size of its target. One such area is the consolidation field. The Company's strategy has been to consolidate and streamline the administrative functions of small life insurance companies. Most large life companies have high fixed costs when performing acquisitions restricting them in the minimum size of purchase they can pursue. The Company believes that the consolidation of the industry will continue, and the Company intends to participate in the process.

### Regulation

The Company's insurance subsidiary is subject to regulation and supervision by the states in which it transacts business. The laws of these jurisdictions generally establish agencies with broad regulatory authority, including powers to: (1) grant and revoke licenses to transact business; (2) regulate and supervise trade practices and market conduct; (3) establish guaranty associations; (4) license agents; (5) approve policy forms; (6) approve premium rates for some lines of business; (7) establish reserving requirements; (8) prescribe the form and content of required financial statements and reports; (9) determine the reasonableness and adequacy of statutory capital and surplus; and (10) regulate the type and amount of permitted investments. Because Great Midwest is licensed to sell insurance in Oklahoma and Texas, it is subject to regulation by the insurance regulatory agencies of both states. SEE "ITEM 6-MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION--Liquidity and Capital Resources."

Most states also have enacted legislation that regulates insurance holding company groups, including acquisitions, extraordinary dividends, the terms of surplus debentures, the terms of affiliate transactions and other related matters. Currently, the Company and its insurance subsidiary are registered as a holding company group pursuant to such legislation in Texas and Oklahoma.

The federal government does not directly regulate the insurance business. However, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation and federal taxation, do affect the insurance business. Recently, increased scrutiny has been placed upon the insurance regulatory framework, and a number of state legislatures have considered or enacted legislative proposals that alter, and in many cases increase, the authority of state agencies to

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regulate insurance companies and holding company groups. In addition, legislation has been introduced from time to time in recent years which, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry.

State insurance regulators and the NAIC are continually re-examining existing laws and regulations and their application to insurance companies. From time to time the NAIC has adopted, and recommended to the states for adoption and implementation, several regulatory initiatives designed to decrease the risk of insolvency of insurance companies in general. These initiatives include risk-based capital ("RBC") requirements for determining the levels of capital and surplus an insurer must maintain in relation to its insurance and investment risks. The NAIC regulatory initiatives also impose restrictions on an insurance company's ability to pay dividends to its stockholders. These initiatives may be adopted by the various states in which the Company's subsidiary is licensed, but the ultimate content and timing of any statutes and regulations to be adopted by the states cannot be determined at this time. It is not possible to predict the future impact of changing state and federal regulations on the operations of the Company, and there can be no assurance that existing insurance related laws and regulations will not become more restrictive in the future or that laws and regulations enacted in the future will not be more restrictive.

Most states have enacted legislation or adopted administrative regulations which affect the acquisition of control of insurance companies as well as transactions between insurance companies and persons controlling them. The nature and extent of such legislation and regulations vary from state to state. Most states, however, require administrative approval of: (1) the acquisition of 10 percent or more of the outstanding shares of an insurance company incorporated in the state; or (2) the acquisition of 10 percent or more of the outstanding stock of an insurance holding company whose insurance subsidiary is incorporated in the state. The acquisition of 10 percent of such shares is generally deemed to be the acquisition of control for purposes of the holding company statutes. It requires not only the filing of detailed information concerning the acquiring parties and the plan of acquisition, but also the receipt of administrative approval prior to the acquisition. In many states, an insurance authority may find that control does not, in fact, exist in circumstances in which a person owns or controls 10 percent or a greater amount of securities.

Under the solvency or guaranty laws of most states in which they do business, the Company's insurance subsidiary may be required to pay assessments (up to certain prescribed limits) to fund policyowner losses or the liabilities of insolvent or rehabilitated insurance companies. These assessments may be deferred or forgiven under most guaranty laws if they would threaten an insurer's financial strength. In certain instances, the assessments may be offset against future premium taxes. The Company's subsidiaries historically have not been required to pay assessments in any significant amounts. The likelihood and amount of any future assessments cannot be estimated, as they are beyond the control of the Company.

As part of their routine regulatory oversight process, insurance departments conduct periodic detailed examinations of the books, records and accounts of insurance companies domiciled in their states. Texas conducts such examinations on a three to five year cycle under guidelines promulgated by the NAIC. The Company incurred examination expenses in 2001 for an examination of Great Midwest in the amount of \$16,110. See Note I to the Company's Consolidated Financial Statements.

### Federal Income Taxation

The annuity and life insurance products marketed and issued by the

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Company's subsidiary generally provide the policyowner with an income tax advantage, as compared to other savings investments such as certificates of deposit and bonds, in that income taxation on the increase in value of the product is deferred until receipt by the policyowner. With other savings investments, the increase in value is taxed as earned. Annuity benefits and life insurance benefits which accrue prior to the death of the policyowner are generally not taxed until paid. Life insurance death benefits are generally exempt from income tax, but not estate tax. Also, benefits received on immediate annuities (other than structured settlements) are recognized as taxable income

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ratably as opposed to the economic accrual methods, which tend to accelerate taxable income into earlier years and which are required for other investments. The tax advantage for annuities and life insurance is provided in the Internal Revenue Code ("the Code"), and is generally followed in all states and other United States taxing jurisdictions. Accordingly, it is subject to change by Congress and the legislatures of the respective taxing jurisdictions.

The Company's insurance company subsidiary is taxed under the life insurance company provisions of the Code. Provisions in the Code require a portion of the expenses incurred in selling insurance products to be deducted over a period of years, as opposed to immediate deduction in the year incurred. This provision increases the tax for statutory accounting purposes, which reduces statutory surplus and, accordingly, decreases the amount of cash dividends that may be paid by the life insurance subsidiary. Great Midwest also qualifies under the small life insurance company rules for taxation which may further reduce taxes.

### ITEM 2. DESCRIPTION OF PROPERTY

The Company's administrative, marketing and production facilities consist of approximately 3,000 square feet at a single location in Del City, Oklahoma. The Company owns and occupies this facility and owns the approximate 30,000 square feet of raw land adjacent to the property. This facility will provide room for possible expansion, which will likely be utilized within the next few years.

The Company has leased 2,400 square feet of space within the internal boundaries of its property to Nextel Westcorp, Inc., on which space the lessee has erected a communications tower. Terms of the lease agreement (the "Lease Agreement"), which was entered into in March 2001, provide for monthly payments to the Company of approximately \$1,300 per month during the initial five-year term of the lease. The lease is renewable at the option of the lessee for five additional five-year terms. If all renewals are exercised, the Company expects to receive over \$600,000 over the life of the agreement.

On March 6, 2001, the Company sold the Lease Agreement. In connection with the sale, the Company had a disagreement with Grant Thornton LLP, its then auditors, regarding the Company's proposed accounting treatment of the sale. SEE "ITEM 8 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE," and Note H of the Notes to the Financial Statements." The Company interpreted certain provisions relating to Statement of Financial Accounting Standards ("FAS") 13 to allow the recording of a gain on the sale of the Lease Agreement as of the effective date of the sale in the amount of \$186,000 because the Company did not retain any ownership in the lease revenue stream and the buyer had no recourse against the Company if the lease revenue stream did not continue. Grant Thornton LLP's review of the transaction indicated that the Lease Agreement was an operating lease and that pursuant to FAS 13 paragraph 22, the sale or assignment by the lessor of lease payments due

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under an operating lease should be accounted for as a borrowing. As such, Grant Thornton LLP recommended that the Company record the sale of the Lease Agreement as a borrowing as of the effective date of the sale. The effect on the Company's first quarter financial statements was to eliminate \$186,000 from income and record a like amount as a liability.

During the Company's discussions with Grant Thornton LLP, the Company was informed of certain requirements that had to be satisfied in order for the gain on the sale of the Lease Agreement to be recognized as income. Pursuant to the information provided by Grant Thornton LLP, the Company subsequently structured the transaction to meet the requirements necessary for the gain on the sale of the Lease Agreement to be recognized as income and the Company recorded a gain of \$186,000 in June 2001. The effect on the Company's financial statements was to delay recording \$186,000 of income from the first quarter of 2001 to the second quarter of 2001.

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As a result of events subsequent to the sale, the Company came to the conclusion that the tower property and lease were more attractive investments than when they were sold by the Company. Accordingly, on December 17, 2001, the Company repurchased the property, together with the underlying communications tower lease, for \$213,500. SEE "ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION--Liquidity and Capital Resources" and Note H of the Notes to the Financial Statements.

### ITEM 3. LEGAL PROCEEDINGS

The Company is involved from time to time in various legal proceedings and claims incident to the normal conduct of its business. The Company believes that such legal proceedings and claims, individually and in the aggregate, are not likely to have a material adverse effect on its financial condition or results of operations.

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

No matters were submitted to a vote of the security holders during the fourth quarter of the fiscal year covered by this report.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### Trading Market

There is currently a limited market for the common stock of the Company. The common stock began trading on the OTC Bulletin Board on October 27, 1999, under the symbol SUMC. The following table sets forth, for the periods indicated, the high and low bid prices of the Company's common stock during the periods indicated, as reported by the OTC Bulletin Board:

	2000		2001	
	High	Low	High	Low
First Quarter.....	\$ 5.00	\$ 2.00	\$ .53	\$ .25
Second Quarter.....	\$ 2.50	\$ 1.50	\$1.05	\$ .10
Third Quarter.....	\$ 1.75	\$ .44	\$ .80	\$ .75
Fourth Quarter.....	\$ .56	\$ .27	\$ .90	\$ .10

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OTC Bulletin Board quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. The Company intends to make application to list the common stock on the Nasdaq SmallCap Market when it qualifies for listing.

### Number of stockholders

As of the close of business on March 27, 2002, 2,248,605 shares of common stock were issued and outstanding, 422,200 shares of common stock were subscribed and unissued but deemed to be issued and outstanding, 5,000 shares of Series A preferred stock were issued and outstanding and 350,000 shares of Series B preferred stock were issued and outstanding. Great Midwest has been issued 19,000 shares of common stock, but such shares are not taken into account when determining the number of shares of common stock that are outstanding. At such date, there were approximately 1,429 stockholders of record of the common stock.

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### Dividend Policy

To date, the Company has declared no cash dividends on its common stock, and does not expect to pay cash dividends in the near term. The Company intends to retain future earnings, if any, to provide funds for operations and the continued expansion of its business.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis reviews the Company's operations for the years ended December 31, 2001 and 2000. Certain statements contained in this discussion are not based on historical facts, but are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate, and actual events and results may differ materially from anticipated results described in such statements. The Company's ability to achieve such results is subject to certain risks and uncertainties such as those inherent generally in the insurance industry, the impact of competition, changing market conditions and other risks. The following discussion and analysis should be read in conjunction with the financial statements of the Company and the notes related thereto included elsewhere in this Report.

Currently, the Company's only business segment is its life insurance operations. However, in the past the Company has also provided residential mortgage loan processing services to individuals and financing to medical accounts receivable factoring entities.

### Operating Data

The following table sets forth selected information regarding operating results for the periods indicated:

	Year Ended December 31,	
	2001	2000
	-----	-----
	(dollars in thousands)	
Statement of Operations Data:		
Revenues	\$ 610	\$ 571
Benefits and expenses	933	975
	-----	-----
Net loss	\$ (324)	\$ (404)
	=====	=====

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### Balance Sheet Data:

Cash and cash equivalents	\$	1,661	\$	1,436
Total assets	\$	6,629	\$	6,163
Total liabilities	\$	5,572	\$	5,187
Stockholders equity	\$	1,057	\$	975

### Results of Operations

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Assets/Liabilities/Stockholders' Equity. Total assets were \$6,629,095 at December 31, 2001, compared to \$6,162,682 at December 31, 2000, an increase of 8%. The increase was due to the acquisition of the Presidential block of policies during 2001. See "ITEM 1. DESCRIPTION OF BUSINESS-General."

Total liabilities (primarily insurance reserves for future policyholder benefits) were \$5,572,208 at December 31, 2001, compared to \$5,187,382 at December 31, 2000, an increase of 7%. The increase was due primarily to the Presidential acquisition, but was offset in part by repayment of a portion of the Company's outstanding debt.

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Total stockholders' equity was \$1,056,887 at December 31, 2001, compared to \$975,300 at December 31, 2000, an increase of 8%. The increase was primarily due to the sale of the Company's common stock pursuant to the Company's public offering, which became effective in May 2001. The offering, which was terminated effective March 31, 2002, resulted in the sale of 445,200 shares of common stock for gross aggregate proceeds of \$445,200.

The average rate of return on investments, including cash and cash equivalents, was approximately 6.1% for 2001 and 6.5% for 2000, while the average rate credited to policyowner accounts was approximately 5.0% and 5.2%, respectively.

Revenue. Revenues attributable to life insurance increased 136% from \$152,624 to \$359,533 for the year ended December 31, 2001, compared to the year ended December 31, 2000. The increase was due to the acquisition of the Presidential block in August 2001 as well as the Company's increased success in marketing. The Company appointed a new marketing director in late 2000 and appointed 40 new agents during 2001 which led to a significant increase in new business written for the Company.

Investment income decreased 10%, from \$377,184 for the year ended December 31, 2000 to \$338,670 for the year ended December 31, 2001, primarily as a result of a series of interest rate reductions during the year by the Federal Reserve.

Net losses on trading securities of \$139,527, mainly unrealized holding losses, were reported for the period ended December 31, 2001 as compared to losses on trading securities of \$159,755 for the period ended December 31, 2000. The Company recovered more than \$38,000 in losses during the fourth quarter and anticipates continued recovery in the valuation of its equity portfolio. The Company began trading securities in the fourth quarter of 2000 and is required to report unrealized gains and losses in operations. The realized gain or loss for each trading security may differ materially depending on the date of sale, the underlying performance of the represented company and other market conditions.

Other income decreased 46%, from \$109,025 for the year ended December 31,



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2000 to \$58,730 for the year ended December 31, 2001, primarily as a result of a gain on the sale of real estate which was recognized during the second quarter of 2000.

**Costs and Expenses.** Total expenses decreased 4% from \$975,178 to \$933,818 for the years ended December 31, 2000 and December 31, 2001, respectively. Such decrease was primarily attributable to management's cost containment programs, which reduced general, administrative and other operating expenses by \$69,000 during the year 2001.

Policy benefits increased 48% from \$96,397 to \$142,413 for the years ended December 31, 2000 and December 31, 2001, respectively, due to the acquisition of Presidential policies, which tripled the number of policies serviced by the Company. Change in policy reserves, interest expenses and expenses associated with taxes, licenses and fees all decreased slightly during 2001 compared to 2000 while depreciation and amortization increased slightly to reflect the amortization of the goodwill associated with the Presidential acquisition. Management believes the Presidential purchase has been successfully integrated into Great Midwest's operations and will contribute toward the profitability of the Company.

**Losses.** The Company reported a net loss for the year ended December 31, 2001 of \$324,204, compared to a net loss for the year ended December 31, 2000 of \$404,421, a 20% decrease. This was due, in part, to management's efforts to increase premium revenues through both the Presidential acquisition and increased marketing activities and to continued cost containment measures instituted two years ago. The Company's loss per share decreased to \$0.15 per share for the year ended December 31, 2001, compared to a loss of \$0.20 per share for the year ended December 31, 2000.

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### Liquidity and Capital Resources

#### Liquidity

The principal requirements for liquidity in connection with the Company's operations are in contractual obligations to policyowners and annuitants. The Company's contractual obligations include payments of surrender benefits, contract withdrawals, claims under outstanding insurance policies and annuities, and policy loans. Payment of surrender benefits is a function of "persistency", which is the extent to which insurance policies are maintained by the policyowner. Policyowners, at times, do not pay premiums, thus causing their policies to lapse, or policyowners may choose to surrender their policies for their cash surrender value. If actual experience of a policy or block of policies is different from the initial or acquisition date assumptions, a gain or loss could result. Depending on the nature of the underlying policy, a lapse or surrender may result in surrender charge revenue or surrender benefit expense. Such amounts may be less than, or greater than, unamortized acquisition expenses and/or the related policy reserves; accordingly, current period earnings may either increase or decrease. Additionally, policy lapses and surrenders may result in lost future revenues and possible profitability associated with the policy.

#### Capital Resources

On January 13, 1999, the Company acquired 100% of the outstanding common stock of Great Midwest, a Texas-chartered life insurance company. The total cost of the acquisition was approximately \$939,000. Of the purchase price, cash of \$607,000 was paid to seven of eight stockholders with the eighth stockholder

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receiving a promissory note for a principal amount of \$332,000, payable in three equal annual installments at an annual interest rate of 6% on the unpaid principal balance. The Company partially funded the cash portion of the purchase price with a \$350,000 loan from a bank. The loan accrued interest at an index rate plus .5%, payable monthly, and originally matured on July 9, 1999, at which time the Company paid \$100,000 of the principal amount owed and renewed the balance for a six-month term maturing January 9, 2000. The balance of the loan was paid December 31, 1999 using operating cash flow and the proceeds from the sale of Benefit Capital Life Insurance Company. During 2001, the Company paid the last of the three installments due on the promissory note held by the former stockholder.

On August 1, 2001, Great Midwest acquired a block of approximately 1,400 life insurance policies. Reserves of \$712,000 and assets of \$634,392 were transferred to Great Midwest for a purchase price of \$77,608. The purchase was funded with cash flow from operations. The purchase increased policies serviced over 200% and in-force life insurance by \$14.8 million, or 106%.

On September 28, 2001, the investor who had subscribed for an aggregate 1,000,000 shares of the Company's Series B preferred stock did not make the final payment due with respect to his subscription. Under the terms of his subscription agreement, pursuant to which the investor was deemed to have been issued only that number of shares that were fully paid, a total of 350,000 shares of Series B preferred stock was deemed to be sold, and the subscription receivable of \$650,000 was canceled.

The Company has made and intends to make ongoing expenditures in connection with its subsidiary's marketing programs. Historically, the Company has funded these expenditures from cash flow from operations.

In preparing its financial statements for the 2001 fiscal year, the Company requested a review by the Securities and Exchange Commission (the "SEC") of its accounting treatment of the sale of certain real estate subject to an operating lease, reported during the second quarter of 2001, as well as its proposed accounting treatment of the December 2001 repurchase of such property. SEE "ITEM 2-DESCRIPTION OF PROPERTY" for a description of the property and accompanying lease, "ITEM 8- CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE," and Note H of the Notes to the Financial Statements. As a

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result of its discussion with the SEC, the Company decided to reverse the \$186,000 of income reported on the sale of real estate subject to an operating lease previously reported in the second quarter of 2001.

Great Midwest intends to request from state insurance regulators a review and approval of the accounting treatment used by the company in its statutory financial statements. Should the regulators require restatement, Great Midwest may fail to meet the minimum capital and surplus required by applicable statutes. In such event, the Company has the option of requesting an increase to the valuation of the property based on independent appraisals and/or contributing additional funds as surplus to the subsidiary to comply with statutory capital and surplus requirement. The Company believes that if an additional capital contribution is required, it will be able to obtain the necessary capital.

The Company believes that anticipated cash from continuing operations should be sufficient to fund its operations and the annual 10% dividend on the Series A Preferred Stock for at least the next twelve months. The Company may not, however, generate sufficient cash flow for these purposes. The Company's

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ability to fund its operations and to make scheduled dividend payments will depend on its future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control. The risk factors to which the Company's operations are subject include the following:

### Business Outlook and Risk Factors

The Company's future operating results may be affected by various trends, developments and factors that the Company must successfully manage in order to achieve favorable operating results. In addition, there are trends, developments and factors beyond the Company's control that may affect its operations. In accordance with the provisions of the Private Securities Litigation Reform Act of 1995, the cautionary statements and risk factors set forth below and in the Company's other filings with the Securities and Exchange Commission, identify important trends, factors and currently known developments that could cause actual results to differ materially from those in any forward-looking statements contained in this Report and in any written or oral statements of the Company. Forward-looking statements in this Report include revenue, expense and earnings analysis for the remainder of 2002 as well as the Company's expectations relating to its business strategy. Risk factors include the following:

The Company operates in a highly competitive industry, which could limit its ability to gain or maintain its position.

The Company is in direct competition with a large number of insurance companies, many of which offer a greater number of products through a greater number of agents and have greater resources than the Company. In addition, the Company may be subject, from time to time, to new competition resulting from additional private insurance carriers introducing products similar to those offered by it. Moreover, as a result of recent federal legislation, commercial banks, insurance companies, and investment banks may now combine, provided certain requirements are satisfied, and the Company expects to encounter increased competition from these providers of financial services. This competitive environment could result in lower premiums, less favorable underwriting terms and conditions, loss of sales and reduced profitability.

Over the past three fiscal years, substantially all of the Company's premiums were from sales of policies in Oklahoma and Texas. The Company's ability to compete successfully may suffer from competitive changes in these particular markets.

The Company's lack of a rating could adversely affect its ability to compete.

Ratings of insurance companies are typical within the industry. Increased public and regulatory concerns regarding the financial stability of insurance companies have resulted in policyholders placing greater emphasis upon company

ratings and have created some measure of competitive advantage for insurance carriers with higher ratings. Rating organizations assign ratings based upon several factors. While most of the considered factors relate to the rated company, some of the factors relate to general economic conditions and circumstances outside the rated company's control. As of March 29, 2002, the Company has not been rated by any rating organization. The absence of any rating could adversely affect the Company's ability to sell its products or retain existing business, as well as in its ability to compete for attractive acquisition opportunities.

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The Company may not be able to compete successfully if it cannot recruit and retain insurance agents.

The Company continuously recruits and trains independent agents to market and sell its products. The Company may not be able to continue to attract and retain independent agents to sell its products. The Company also engages marketing general agents from time to time to recruit independent agents and develop networks of agents in various states. The Company's business and ability to compete may suffer from the inability to recruit and retain insurance agents and from the loss of services provided by its marketing agents.

The Company's policy claims fluctuate from year to year, and future benefit payments may exceed reserves.

The Company's results may fluctuate from year to year due to fluctuations in policy claims received by its life insurance subsidiary. Great Midwest has established reserves for claims and future policy benefits based on accepted actuarial practices. By care in underwriting new policies and sharing risk with reinsurance companies, Great Midwest has attempted to limit the risk that its actual payments of death and other benefits will exceed its reserves. The reserves are, however, only actuarial estimates and it is possible that Great Midwest's claims experience could be worse than anticipated, so that its reserves may prove to be insufficient. If this were to happen, it could result in increased operating losses.

The Company could be forced to sell illiquid investments at a loss to cover policyholder withdrawals.

Many of the products offered by Great Midwest allow policyholders and contractholders to withdraw their funds under defined circumstances. Great Midwest manages its liabilities and configures its investment portfolio so as to provide and maintain sufficient liquidity to support anticipated withdrawal demands, contract benefits and maturities. While Great Midwest owns a significant amount of liquid assets, a certain portion of its assets are relatively illiquid. Unanticipated withdrawal or surrender activity could, under some circumstances, compel Great Midwest to dispose of illiquid assets on unfavorable terms, which could have an adverse effect on the Company.

Interest-rate fluctuations could negatively affect our spread income.

Significant changes in interest rates expose insurance companies to the risk of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies. Both rising and declining interest rates can negatively affect the Company's spread income. While the Company develops and maintains asset/liability management programs and procedures designed to preserve spread income in rising or falling interest rate environments, changes in interest rates could adversely affect such spreads.

Lower interest rates may result in lower sales of certain of the Company's insurance and investment products. In addition, certain of the Company's insurance products guarantee a minimum credited interest rate.

The Company's insurance subsidiary is highly regulated, and government regulation may affect profitability or market value.

The Company's insurance subsidiary is subject to government regulation in

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each of the states in which it conducts business. Such regulation is vested in state agencies having broad administrative power dealing with many aspects of the insurance business, which may include premium rates, marketing practices, advertising, policy forms, and capital adequacy, and is concerned primarily with the protection of policyholders rather than share owners. Changes in these regulations could affect the Company's profitability or the market value of its shares.

The Company's insurance subsidiary acts as a fiduciary and is subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans governed by the Employment Retirement Income Security Act, or ERISA. Severe penalties are imposed on insurers that breach their fiduciary duties to the plans under ERISA. If the Company were fined or a penalty was imposed on the Company by a governmental agency having jurisdiction over it, the Company might not have the financial resources to pay the fine or penalty.

The Company cannot predict the effect of recent insurance regulatory changes.

The National Association of Insurance Commissioners, or the NAIC, has adopted the Codification of Statutory Accounting Principles ("Codification") effective on January 1, 2001. The Company has determined that the primary effect of Codification is that goodwill can now be recorded as an admitted asset on its subsidiary's statutory financial statements.

A tax law change could adversely affect the Company's ability to compete with non-insurance products.

Under the Internal Revenue Code of 1986, as amended (the "Code"), income tax payable by policyholders on investment earnings is deferred during the accumulation period of certain life insurance and annuity products. This favorable tax treatment may give certain of the Company's products a competitive advantage over other non-insurance products. To the extent that the Code is revised to reduce the tax-deferred status of life insurance and annuity products, or to increase the tax-deferred status of competing products, all life insurance companies, including Great Midwest, would be adversely affected with respect to their ability to sell such products, and, depending on grandfathering provisions, the surrenders of existing annuity contracts and life insurance policies. In addition, life insurance products are often used to fund estate tax obligations. If the estate tax were eliminated, the demand for certain life insurance products could be adversely affected. The Company cannot predict what tax initiatives may be enacted which could adversely affect us.

The Company's investments are subject to risks.

The Company's invested assets are subject to customary risks of credit defaults and changes in market values. The value of the Company's investment portfolio depends in part on the financial condition of the companies in which it has made investments. Factors that may affect the overall market value of the Company's invested assets include interest rate levels, financial market performance, and general economic conditions, as well as particular circumstances affecting the businesses of individual companies.

The Company's growth from acquisitions involves risks.

The Company's acquisitions have benefited it in part by allowing it to enter new markets and to position the Company to realize certain operating efficiencies associated with economies of scale. There can be no assurance, however, that the Company will realize the anticipated financial results from its acquisitions or that suitable acquisitions, presenting opportunities for continued growth and operating efficiencies, or capital to fund acquisitions

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will continue to be available to it.

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The Company is dependent on the performance of others.

The Company's results may be affected by the performance of others because the Company has entered into various arrangements involving other parties. For instance, many of the Company's products are sold through independent distribution channels. Additionally, a portion of the Company's life insurance sales comes from arrangements with unrelated marketing organizations. As with all financial services companies, the Company's ability to conduct business is dependent upon consumer confidence in the industry and its products. Actions of competitors, and financial difficulties of other companies in the industry, could undermine consumer confidence and adversely affect the Company's business.

A decline in the Company's stock price may limit our ability to raise capital.

During 2000 and 2001, many financial services companies, including the Company, experienced a decrease in the market price of their common stock. Although the Company believes it has sufficient, internally generated cash flow to fund its day-to-day operations, a lower stock price may limit its ability to raise capital to fund other growth opportunities and acquisitions. In fact, the lower stock prices suffered by the Company's stock during 2001 had an adverse effect on its ability to fully sell all 1,000,000 shares offered in its public offering that commenced in May 2001.

The Company's reinsurance program involves risks.

Great Midwest is able to assume insurance risks beyond the level which its capital and surplus would support by transferring substantial portions of such risks to other, larger insurers through reinsurance contracts. These reinsurance arrangements, which are the usual practice in the insurance industry, leave Great Midwest exposed to two risks:

- The credit risk, which exists because reinsurance does not fully relieve Great Midwest of its liability to its insureds for the portion of the risks ceded to reinsurers. Although Great Midwest places its reinsurance with reinsurers it believes to be financially stable, a reinsurer's subsequent insolvency or inability to make payments under the terms of a reinsurance treaty could have a materially adverse effect on our financial condition.
- The amount and cost of reinsurance available to Great Midwest is subject, in large part, to prevailing market conditions beyond its control. Non-renewal or cancellation of a reinsurance arrangement affects only new business and the reinsurer remains liable on business reinsured prior to non-renewal or cancellation. If Great Midwest were to be unable to maintain or replace its reinsurance facilities on acceptable terms upon their expiration and were unwilling or unable to bear the associated increase in exposure on new business, it would have to reduce the amount of its new business.

The Company is dependent on dividends and management fees from its insurance subsidiary, Great Midwest, to fund its operations.

The Company's ability to fund its operations is affected by the ability of its insurance company subsidiary, Great Midwest, to declare and distribute dividends to the Company as its sole shareholder, as well as on its ability to

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pay the Company management fees for the administrative services the Company provides to it. Insurance company subsidiaries like Great Midwest are subject to various state statutory and regulatory restrictions, applicable to insurance companies generally, that limit the amount of cash dividends, loans and advances that those subsidiaries may pay to their parent companies. Under Texas insurance laws, our principal operating subsidiary, Great Midwest, generally may pay dividends to us only out of its unassigned surplus as reflected in its statutory financial statements filed in that state. In addition, the Texas Commissioner of Insurance must approve, or not disapprove within 30 days of notice, payment of an "extraordinary" dividend from Great Midwest. Under Texas insurance laws, that

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term generally refers to a dividend that exceeds, together with all dividends paid by Great Midwest within the previous 12 months, the greater of:

- 10% of Great Midwest's statutory capital and surplus at the preceding December 31; or
- the net gain from operations of Great Midwest for the 12 months ended on such December 31.

It is possible that more stringent restrictions will be adopted from time to time, which could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to the Company by its insurance subsidiary without affirmative prior approval by state insurance regulatory authorities.

In the event of the insolvency, liquidation, reorganization, dissolution or other winding-up of an insurance subsidiary of the Company, all creditors of the subsidiary, including holders of life insurance policies, would be entitled to payment in full out of the assets of such subsidiary before the Company, as shareholder, would be entitled to any payment.

### ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements of the Company are incorporated by reference from pages F-1 through F-22 of the attached Appendix, and include the following:

Consolidated Financial Statements of Summit Life Corporation and Subsidiaries

- (1) Report of Independent Certified Public Accountants (Gary Skibicki CPA, P.C.);
- (2) Report of Independent Certified Public Accountants (Grant Thornton LLP);
- (3) Consolidated Balance Sheets as of December 31, 2001 and 2000;
- (4) Consolidated Statements of Operations for Years Ended December 31, 2001 and 2000;
- (5) Consolidated Statement of Stockholders' Equity for Years Ended December 31, 2001 and 2000;
- (6) Consolidated Statements of Cash Flows for Years Ended December 31, 2001 and 2000; and
- (7) Notes to Consolidated Financial Statements.

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As of June 29, 2001, the Company's Board of Directors dismissed Grant

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Thornton LLP as the Company's independent accountants and appointed Gary Skibicki CPA, P.C. as the Company's independent accountants.

The reports of Grant Thornton LLP on the Company's consolidated financial statements as of and for the years ended December 31, 2000 and 1999 did not contain any adverse opinion or disclaimer of opinion, and neither report was qualified or modified as to uncertainty, audit scope or accounting principles.

The decision to change independent accountants was recommended by the Company's Audit Committee, and approved by the Company's Board of Directors on June 29, 2001.

During the two most recent fiscal years and through the date of this report, the Company has not had any disagreements with Grant Thornton LLP, except as set forth below in this paragraph, on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Grant Thornton LLP would have caused Grant Thornton LLP to make reference thereto in their report on the consolidated financial statements of the Company for such periods. During the two most recent fiscal years and through the date of this report, the Company has had one disagreement with Grant Thornton LLP regarding

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the Company recording a gain on the March 6, 2001, sale of a communications site lease agreement (the "Lease Agreement"). SEE "ITEM 2-DESCRIPTION OF PROPERTY." The Company interpreted certain provisions relating to Statement of Financial Accounting Standards ("FAS") 13 to allow the recording of a gain on the sale of the Lease Agreement as of the effective date of the sale in the amount of \$186,000 because the Company did not retain any ownership in the lease revenue stream and the buyer had no recourse against the Company if the lease revenue stream did not continue. Grant Thornton LLP's review of the transaction indicated that the Lease Agreement was an operating lease and that pursuant to FAS 13 paragraph 22, the sale or assignment by the lessor of lease payments due under an operating lease should be accounted for as a borrowing. As such, Grant Thornton LLP recommended that the Company record the sale of the Lease Agreement as a borrowing as of the effective date of the sale.

The Company's Audit Committee was informed of the disagreement by letter from Grant Thornton LLP. After considerable discussion, the Company accepted the recommendations of Grant Thornton LLP and did not record the gain as of the effective date of the sale of the Lease Agreement. The matter was resolved to the satisfaction of Grant Thornton LLP. The discussions between the Company and Grant Thornton LLP covered the accounting principles and literature related to the different types of leases and revenue recognition. The effect on the Company's first quarter financial statements was to eliminate \$186,000 from income and record a like amount as a liability.

The Company, during the course of evaluating Grant Thornton LLP's recommendation, discussed the recording of the gain on the sale of the Lease Agreement with Gary Skibicki CPA, P.C. The discussions between the Company and Gary Skibicki CPA, P.C. covered the accounting principles and literature related to the different types of leases and revenue recognition. Gary Skibicki CPA, P.C. concurred with the recommendations of Grant Thornton LLP regarding the manner in which the sale should be recorded and, as stated above, the Company did record the sale of the Lease Agreement as a borrowing in accordance with the recommendations of Grant Thornton LLP. The Company authorized Grant Thornton LLP to respond fully to inquiries of Gary Skibicki CPA, P.C., regarding the subject matter of the disagreement.



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The Company has requested Gary Skibicki CPA, P.C. to review the disclosure required by this Item 8 and Gary Skibicki CPA, P.C. has informed the Company that it concurs with the disclosure as set forth in this Item 8 concerning Gary Skibicki CPA, P.C.

Other than the disagreement set forth above, during the Company's two most recent fiscal years and through the date of this report, the Company has not had any reportable events as defined in Item 304 (a) (1) (iv) of Regulation S-B and there has not been a transaction similar to the sale of the Lease Agreement during the two most recent fiscal years or the subsequent interim period.

The Company requested that Grant Thornton LLP furnish it with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements. A copy of the letter dated July 13, 2001 is filed as Exhibit 16 to Form 8-K/A filed on July 13, 2001.

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### PART III

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The information required will be contained in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

#### ITEM 10. EXECUTIVE COMPENSATION

The information required will be contained in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

#### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required will be contained in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

#### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required will be contained in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

#### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) Financial Statements are attached hereto as Appendix A and included herein on pages F-1 through F-22.

(2) The exhibits set forth on the following Exhibit Index are filed with this Report or are incorporated by reference as set forth therein.

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Exhibit Number -----	Name of Exhibit -----
3.1*	First Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
3.2*	First Amended and Restated Bylaws (filed as Exhibit 3.2 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
4.1*	Specimen Certificate of the common stock (filed as Exhibit 4.1 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
4.2*	See Articles V and X of the Company's Certificate of Incorporation and Article VI of the Company's Bylaws (filed as Exhibit 4.2 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
4.3*	Specimen Certificate of the Series A Preferred Stock (filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB for the Quarter ended June 30, 1999 and incorporated herein by reference).
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4.4*	Certificate of Designation of Series A Preferred Stock (filed as Exhibit 4.2 to the Company's Quarterly Report on Form 10-QSB for the Quarter ended June 30, 1999 and incorporated herein by reference).
4.5*	Certificate of Designation of Series B Convertible Preferred Stock (filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB for the Quarter ended September 30, 2000 and incorporated herein by reference).
10.1*	Employment Agreement by and between the Company and James L. Smith (filed as Exhibit 10.1 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
10.2*	Employment Agreement by and between the Company and Charles L. Smith (filed as Exhibit 10.2 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
10.3*	Stock Purchase Agreement by and between the Company and BCLIC (filed as Exhibit 10.3 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
10.4*	Stock Purchase Agreement between the Company and Orville Homer Miller et al. (filed as Exhibit 10.4 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).

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- 10.5\* Stock Purchase Agreement between Summit Life Corporation, Seller, and First Alliance Insurance Company, Buyer, dated November 10, 1999 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed November 24, 1999 and incorporated herein by reference).
- 10.6\* Escrow Agreement between the Company and UMB Bank (filed as Exhibit 10.5 to the Company's Registration Statement on Form SB-2, file number 333-55722 and incorporated herein by reference).
- 10.7\* Designated Agency Officer Agreement (filed as Exhibit 10.7 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
- 10.8 Communications Site Lease Agreement dated March 6, 2001 between the Company and Nextel West Corp. and Amendment No. 1 thereto.
- 16\* Letter to SEC from Grant Thornton LLP dated July 13, 2001 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed July 13, 2001 and incorporated herein by reference).
- 21.1\* List of subsidiaries (filed as Exhibit 21.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000 and incorporated herein by reference).

\* Previously filed.

(b) There was no Form 8-K filed by the Company during the fourth quarter of 2001.

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 10, 2002

SUMMIT LIFE CORPORATION  
an Oklahoma corporation

By: /s/ Charles L. Smith

-----  
Charles L. Smith, President

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

NAME AND TITLE -----	DATE ----
/s/ James L. Smith ----- James L. Smith, Chairman of the Board of Directors Chief Executive Officer and Secretary	April 10, 2002

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(Principal Executive Officer)

/s/ Charles L. Smith April 10, 2002

-----  
Charles L. Smith,  
President, Chief Operating Officer and  
Director  
(Principal Executive Officer)

/s/ Quinton Hiebert April 10, 2002

-----  
Quinton Hiebert,  
Controller  
(Principal Accounting Officer)

/s/ Gary L. Ellis April 10, 2002

-----  
Gary L. Ellis,  
Director

/s/ M. Dean Brown April 10, 2002

-----  
M. Dean Brown,  
Director

/s/ Thomas D. Sanders April 10, 2002

-----  
Thomas D. Sanders,  
Director

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INDEX TO EXHIBITS

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reference).

- 4.3\* Specimen Certificate of the Series A Preferred Stock (filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB for the Quarter ended June 30, 1999 and incorporated herein by reference).
- 4.4\* Certificate of Designation of Series A Preferred Stock (filed as Exhibit 4.2 to the Company's Quarterly Report on Form 10-QSB for the Quarter ended June 30, 1999 and incorporated herein by reference).
- 4.5\* Certificate of Designation of Series B Convertible Preferred Stock (filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB for the Quarter ended September 30, 2000 and incorporated herein by reference).
- 10.1\* Employment Agreement by and between the Company and James L. Smith (filed as Exhibit 10.1 to the Company's Registration Statement on Form SB-2, file number 333-65097 and incorporated herein by reference).
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21.1\* List of subsidiaries (filed as Exhibit 21.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000 and incorporated herein by reference).

\* Previously filed.

APPENDIX A

Consolidated Financial Statements

Summit Life Corporation and Subsidiaries

Years ended December 31, 2001 and 2000  
with Reports of Independent Auditors

Summit Life Corporation and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 2001 and 2000

Contents

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Consolidated Financial Statements:

    Consolidated Balance Sheets.....F-3

    Consolidated Statements of Operations.....F-5

    Consolidated Statement of Stockholders' Equity.....F-6

    Consolidated Statements of Cash Flows.....F-7

    Notes to Consolidated Financial Statements.....F-9

Report of Independent Certified Public Accountant

-----

Board of Directors  
Summit Life Corporation

I have audited the accompanying consolidated balance sheet of Summit Life Corporation and its Subsidiary, as of December 31, 2001, and the related

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consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Summit Life Corporation and its Subsidiary, as of December 31, 2001, and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

GARY SKIBICKI  
CERTIFIED PUBLIC ACCOUNTANT

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Oklahoma City, Oklahoma  
March 11, 2002

Report of Independent Certified Public Accountants  
-----

Board of Directors  
Summit Life Corporation

We have audited the accompanying consolidated balance sheet of Summit Life Corporation and Subsidiaries as of December 31, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. 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 audit.

We conducted our audit 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

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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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Life Corporation and Subsidiaries as of December 31, 2000, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Oklahoma City, Oklahoma  
February 21, 2001

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### Summit Life Corporation and Subsidiaries

#### CONSOLIDATED BALANCE SHEETS

December 31,

ASSETS	2001	2000
	-----	-----
INVESTMENTS		
Debt and equity securities	\$2,903,470	\$2,939,740
Notes receivable	992,033	941,878
Policy loans	113,865	33,382
Investments in limited partnerships	30,800	57,300
	-----	-----
	4,040,168	3,972,300
CASH AND CASH EQUIVALENTS	1,661,410	1,436,338
RECEIVABLES		
Accrued investment income	54,993	41,984
Other	37,583	9,928
	-----	-----
	92,576	51,912
PROPERTY AND EQUIPMENT - AT COST		
Building and improvements	129,419	129,419
Furniture and equipment	119,198	116,570
Automobiles	22,015	22,015
	-----	-----
	270,632	268,004
Less accumulated depreciation	130,870	102,638
	-----	-----
	139,762	165,366
Land	56,000	56,000
	-----	-----



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	195,762	221,366
OTHER ASSETS		
Cost in excess of net assets of business acquired, less accumulated amortization of \$15,000 in 2001 and \$10,000 in 2000	35,000	40,000
Deferred policy acquisition costs	107,765	57,527
Value of purchased insurance business, less accumulated amortization of \$145,364 in 2001 and \$101,872 in 2000	355,966	321,851
Deferred income taxes	37,240	37,241
Public offering costs	56,653	--
Other	46,555	24,147
	-----	-----
	639,179	480,766
	-----	-----
	\$6,629,095	\$6,162,682
	=====	=====

The accompanying notes are an integral part of these statements

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Summit Life Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS - CONTINUED

December 31,

LIABILITIES AND STOCKHOLDERS' EQUITY	2001	2000
	-----	-----
LIABILITIES		
Policy reserves and policyholder funds	\$ 5,364,682	\$ 4,708,295
Unpaid claims	24,971	175,951
accounts payable	63,116	39,458
accrued and other liabilities	8,233	15,424
Notes payable	111,206	248,254
	-----	-----
	5,572,208	5,187,382
COMMITMENTS AND CONTINGENCIES		
	--	--
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value - authorized, shares; issued 2,267,605 shares	5,000,000	22,676
Common stock subscribed	22,676	--
Series A cumulative nonvoting preferred stock, \$.001 par value - authorized, issued, and outstanding, 5,000 shares; stated at liquidation value	422,200	500,000
Series B noncumulative, nonvoting, convertible preferred stock, \$.001 par value - authorized, 1,000,000 shares; issued 350,000 shares	500,000	500,000

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shares; stated at liquidation value	350,000	350,000
Additional paid-in capital	2,923,596	2,923,596
Common stock of parent held by subsidiary - 19,000 shares	(95,000)	(95,000)
Series B convertible preferred stock subscribed	--	650,000
Accumulated other comprehensive income (loss)	13,709	(19,882)
Accumulated deficit	(3,080,294)	(2,706,090)
	-----	-----
	1,056,887	1,625,300
Less stock subscriptions receivable	--	650,000
	-----	-----
	1,056,887	975,300
	-----	-----
	\$ 6,629,095	\$ 6,162,682
	=====	=====

The accompanying notes are an integral part of these statements.

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### Summit Life Corporation and Subsidiaries

#### CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31,

	2001	2000
	-----	-----
Revenues		
Insurance premiums and other considerations, net of reinsurance	\$ 359,533	\$ 152,000
Investment income	338,670	377,000
Net realized gains (losses) on sale of available for sale securities	(7,792)	91,000
Net losses on trading securities	(139,527)	(159,000)
Other	58,730	109,000
	-----	-----
	609,614	570,000
Benefits, losses, and expenses		
Policy benefits	142,413	96,000
Increase in policy reserves	220,251	235,000
Interest	13,658	22,000
Taxes, licenses, and fees	35,290	43,000
Depreciation and amortization	101,312	93,000
General, administrative, and other operating	420,894	484,000
	-----	-----
	933,818	975,000
	-----	-----
Loss before income taxes	(324,204)	(404,000)
Provisions for income taxes	--	--
	-----	-----

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Net loss	(324,204)	(404,204)
Preferred stock dividends	50,000	50,000
	-----	-----
NET LOSS TO COMMON STOCKHOLDERS	\$ (374,204)	\$ (454,204)
	=====	=====
Basic and diluted net loss per common share	\$ (.15)	\$ (.15)
	=====	=====
Weighted average outstanding common shares, basic and diluted	2,419,037	2,248,037
	=====	=====

The accompanying notes are an integral part of these statements.

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Summit Life Corporation and Subsidiaries  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
Years ended December 31, 2001 and 2000

	Total	Common stock		Series A cum
		Shares issued	Par value	preferred
	-----	-----	-----	-----
Balance at January 1, 2000	\$1,016,038	2,267,605	\$ 22,676	5,000
Sale of preferred stock	350,000	--	--	--
Dividends on Series A preferred stock	(50,000)	--	--	--
Comprehensive loss				
Net loss	(404,421)	--	--	--
Other comprehensive income				
Unrealized gain on investments, net	63,683			
	-----	-----	-----	-----
Comprehensive loss	(340,738)			
	-----	-----	-----	-----
Balance at December 31, 2000	975,300	2,267,605	22,676	5,000
Common stock subscribed, not issued	422,200	--	--	--
Cancellation of preferred stock subscription	--	--	--	--
Dividends on Series A preferred stock	(50,000)	--	--	--

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Comprehensive loss				
Net loss	(324,204)	--	--	--
Other comprehensive income				
Unrealized gain on investments, net	33,591			
	-----			
Comprehensive loss	(290,613)			
	-----	-----	-----	-----
Balance at December 31, 2001	\$1,056,887	2,267,605	\$ 22,676	5,000
	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

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Summit Life Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY - CONTINUED

Years ended December 31, 2001 and 2000

	Additional paid-in capital	Common stock of parent held by subsidiary	Stock subscribed	Accumulated other Comprehensive Income (loss)
	-----	-----	-----	-----
Balance at January 1, 2000	\$2,923,596	\$ (95,000)	\$ --	\$ (83,565)
Sale of preferred stock	--	--	650,000	--
Dividends on Series A preferred stock	--	--	--	--
Comprehensive loss				
Net loss	--	--	--	--
Other comprehensive income				
Unrealized gain on investments, net				63,683
				-----
Comprehensive loss				
	-----	-----	-----	-----
Balance at December 31, 2000	2,923,596	(95,000)	650,000	(19,882)
Common stock subscribed, not issued	--	--	422,200	--
Cancellation of preferred stock subscriptions	--	--	(650,000)	--
Dividends on Series A preferred stock	--	--	--	--
Comprehensive loss				
Net loss	--	--	--	--
Other comprehensive income				

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Unrealized gain on investments, net				33,591	
Comprehensive loss					
Balance at December 31, 2001	\$2,923,596	\$ (95,000)	\$ 422,200	\$ 13,709	\$

The accompanying notes are an integral part of these statements.

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Summit Life Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

Increase (Decrease) in Cash and Cash Equivalents					20
Cash flows from operating activities					
Net loss					\$ (32)
Adjustments to reconcile net loss to net cash used in operating activities					
Depreciation and amortization					7
Deferral of policy acquisition costs					(6)
Amortization of deferred policy acquisition costs					2
Interest credited to policyholder account balances					18
Gain on sale of investment securities, other than trading					
Gain on sale of assets					
Other					(2)
(Increase) decrease in					
Trading securities					(13)
Accrued investment income					(1)
Other receivables					(2)
Other assets					(2)
Increase (decrease) in					
Policy reserves					(8)
Unpaid claims					(15)
Accounts payable					2
Accrued and other liabilities					(
Net cash used in operating activities					(54)
Cash flows from investing activities					
Purchases of investment securities, other than trading					(89)
Proceeds from disposition or maturities of investment securities, other than trading					1,23
Net investment in limited partnerships					2
Issuance of notes receivable					(25)
Payments received on notes receivable					19
Increase (decrease) in policy loans					8

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Purchase of property and equipment	(
Proceeds from sale of assets	1
	-----
Net cash provided by investing activities	40
Cash flows from financing activities	
Deposits to policyholder account balances	16
Withdrawals from policyholder account balances	(41
Payments on notes payable	(47
Payments on advances from affiliates	
Proceeds from issuance of notes payable	33
Proceeds from acquisition of business	43
Proceeds from sale of common and preferred stock	42
Dividends paid on preferred stock	(5
Public offering costs	(5
	-----
Net cash provided by (used in) financing activities	36
	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	22
Cash and cash equivalents at beginning of year	1,43
	-----
Cash and cash equivalents at end of year	\$ 1,66
	=====

The accompanying notes are an integral part of these statements.

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Summit Life Corporation and Subsidiaries  
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED  
Year ended December 31,

	2001	2000
	-----	-----
Cash paid (received) during the year for:		
-----		
Interest	\$ 13,658	\$ 32,000
Income taxes	\$ --	\$ --
Noncash investing and financing activities:		
-----		
Notes receivable acquired on sale of investment real estate	\$ --	\$ 94,000

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The accompanying notes are an integral part of these statements.

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## Summit Life Corporation and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001 AND 2000

#### NOTE A - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES

##### 1. Basis of Consolidation and Nature of Operations -----

Summit Life Corporation ("SLC") is an Oklahoma corporation chartered on April 12, 1994 that primarily markets life insurance and annuity policies through its wholly owned insurance subsidiary, Great Midwest Life Insurance Company ("GMLIC"), a Texas corporation acquired on January 13, 1999. The consolidated financial statements include the accounts of each of these corporations with inter-company transactions and balances eliminated.

SLC is a holding company and manages its operations as well as GMLIC's which primarily include marketing/servicing life insurance and annuity products in Texas and Oklahoma. GMLIC is required to maintain an investment portfolio to cover potential claims plus preserve a minimum \$800,000 statutory capital and surplus and for management services paid SLC a fee of \$95,379 in 2001.

##### 2. Use of Estimates -----

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect financial statements and disclosures; accordingly, actual results could differ from those estimates.

##### 3. Cash and Cash Equivalents -----

Cash equivalents include time deposits and certificates of deposit with maturities when acquired of three months or less and money market funds.

The Company maintains its cash and cash equivalents in accounts which may not be federally insured. The company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on these accounts.

##### 4. Investments -----

The Company accounts for certain investments in debt and equity securities as follow:

- \* Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost.
- \* Debt and equity securities that are bought and held principally for

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the purpose of selling in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

- \* Debt and equity securities not classified as either held to maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholder equity as other comprehensive income (loss).

For individual securities classified as available-for-sale or held to maturity non temporary declines in specifically identified securities below cost or amortized cost result in write-downs included in operations. The specific identification method is followed for determining the cost of securities sold.

Notes receivable and policy loans are stated at the total of unpaid balances less estimated uncollectible amounts.

Investments in limited partnerships are accounted for on the equity method. Accordingly, the Company's share of the partnerships earnings or losses are included in the consolidated operating statement with corresponding adjustments made to the carrying amounts on the balance sheet.

Investments in real estate are carried at depreciated cost.

5. Property and Equipment  
-----

Depreciation is allocated to assets over estimated economic lives using the straight-line method. Estimates of economic lives range from five to forty years.

Investment and operating assets are reviewed for impairment whenever events, circumstances or changes in market value indicate that the related carrying amount(s) may not be recoverable. Any required write-downs are based upon the current fair value of the asset.

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES



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(CONTINUED)

6. Cost in Excess of Net Assets of Business Acquired  
-----

Cost in excess of net assets of business acquired is amortized over 10 years on a straight-line basis. In 1999 Great Midwest Life Insurance Company was purchased with a \$50,000 commission being amortized at \$5,000 per year. Management reviews acquisition, amortization and valuation amounts for impairment by evaluating future benefits of the net income earned to determine whether impairment has occurred.

7. Income Taxes  
-----

SLC and its subsidiary file separate income tax returns, Forms 1120 and 1120L, respectively.

The Company recognizes current tax expense based on estimated taxes payable or refundable on current year tax returns.

Deferred tax liabilities or assets are recognized for the estimated future tax effects attributable to temporary differences and carry forwards. The measurement of deferred tax assets is based on provisions of enacted law and are reduced by the amount of any tax benefits that, based on available evidence may not be realized.

8. Deferred Policy Acquisition Costs  
-----

Deferred acquisition costs are those costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. The Company considers commissions and other costs such as underwriting and medical exam fees that are principally related to insurance contracts issued or renewed during the year as acquisition costs. Acquisition costs are capitalized and amortized to operating expenses in proportion to premium revenue recognized over the estimated lives of the policies. Deferred policy acquisition costs for investment products, mainly single premium deferred annuities, are amortized with interest in proportion to the value of expected gross profits as determined by estimated investment yields, mortality, surrender expenses and persistency experience over the lives of the policies. Deferred policy acquisition costs are examined periodically to insure that the unamortized balance does not exceed amounts expected to be recovered from future profits. Acquisition costs that vary in a constant relationship to premiums or insurance in force, are recurring in nature or incurred in level amounts from period to period are charged to expense in that period.

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES  
(CONTINUED)

9. Value of Purchased Insurance Business

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Value of purchased insurance business represents the actuarially determined present value of estimated net cash flows embedded in existing insurance contracts when acquired. The company estimates that insurance contracts have an average economic life of twenty years and purchased insurance contracts are amortized over that time period in proportion to the expected decline in net cash flows of that year. Interest is calculated on unamortized values at the annual rate of 6.5%. At December 31, 2001, approximately 13% of the unamortized value of purchased insurance business is expected to be amortized in each of the next five years, based on current conditions and assumptions as to future events on acquired policies in force.

A summary of the value of purchased insurance business for the years ended December 31:

	2001	2000
Balance, beginning of year	\$ 321,851	\$ 370,758
6.5% on Unamortized Balance	20,920	24,099
Amortization on Beginning Balance	(62,649)	(73,006)
Cost of Acquired Policies From		
Presidential Life Insurance Co.-2001	77,608	--
Presidential Amortization (5 Months)	(1,764)	--
Balance, end of year	\$ 355,966	\$ 321,851

### 10. Revenues, Policy Reserves and Policyholder Funds

-----

Premiums received on deferred annuities and annuities without life contingencies are recorded as liabilities (deposits) into policyholder account balances. The Company earns revenues from these contracts primarily from surrender charges and administrative fees. Premiums for life insurance products and annuities with life contingencies including annuities with life contingency settlement options are recognized when due.

Policyholder account balances include amounts received from policyholders plus interest credited less withdrawals and administrative fees deducted by the Company. The liabilities for future policy benefits for annuities with life contingencies are actuarially computed at the present value of future benefits which includes investment yields and mortality assumptions.

Policy reserves for life insurance contracts are computed based on mortality, morbidity, withdrawals, investment yields and prior company experience or other contingencies that could unfavorably increase reserves. Reserve interest assumptions range from 3.0% to 5.5%. Policy reserves for life insurance products are the same for financial and statutory reporting purposes. Life insurance benefit claims are charged to operating expenses in the period that the claims are incurred. All life insurance related benefits, claims, losses and expenses are reported net of reinsurance ceded.

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

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### NOTE A - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### 11. Earnings (Loss) Per Share Common

-----

Earnings (loss) per common share is computed based upon net earnings (loss), after deduction of preferred stock dividends, divided by the weighted average number of common shares outstanding during each period. For both 2001 and 2000, Series B convertible preferred stock (see Note D) is antidilutive and therefore basic and diluted loss per common share are the same. Additionally, in 2001, \$422,000 was received for common stock sold in the public offering that commenced in May 2001, but the shares for which have not been issued. It is reported as common stock subscribed.

#### 12. Other Comprehensive Income (Loss)

-----

Accumulated other comprehensive income (loss) consists solely of net unrealized investment gains (losses).

Unrealized gain (loss) on investments consists of the following for the years ended December 31:

	2001	2000
	-----	-----
Beginning Other Comprehensive Income (Loss)	\$ (19,882)	\$ (83,565)
Unrealized Appreciation Of Securities	33,591	155,362
Less reclassification for gains included in net loss		(91,679)
	-----	-----
Change During the Year	33,591	63,683
	-----	-----
Accumulated Other Comprehensive Income (Loss)	\$ 13,709	\$ (19,882)
	-----	-----

### NOTE B - INVESTMENTS

Investments in securities are summarized as follows for December 31, 2001:

TYPE OF INVESTMENT	COST/ AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	-----	-----	-----	-----
Debt Securities -				
Held to Maturity	\$ 279,871	\$ 13,115	\$ --	\$ 292,986
Debt Securities -				
Available For Sale				
US Treasury & Other				
US Govt. Agencies	2,018,884	17,682	--	2,036,566
Industrial and				
Miscellaneous	148,036	--	(3,973)	144,063
	-----	-----	-----	-----
Total Debt Securities				
Available For Sale	\$2,166,920	\$ 17,682	\$ (3,973)	\$2,180,629
	=====	=====	=====	=====
Equity Securities -				
Available For Sale	\$ 292,451	--	\$ (1,105)	\$ 291,346
Equity Securities -				
Other	\$ 66,788	--	--	\$ 66,788

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

NOTE B - INVESTMENTS (CONTINUED)

Investments in securities are summarized as follows for December 31, 2000:

TYPE OF INVESTMENT	COST/ AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
-----				
Debt Securities -				
Held to Maturity				
U.S. Treasury & Other				
U.S. Govt. Agencies	\$ 177,788	\$ 14,312	\$	\$ 192,100
Mortgage-backed securities	150,287	--	(662)	149,625
	-----	-----	-----	-----
	\$ 328,075	\$ 14,312	\$ (662)	\$ 341,725
	=====	=====	=====	=====
Debt Securities -				
Available For Sale				
Mortgage-backed	\$ 2,158,672	\$ 11,576	\$ (12,657)	\$ 2,157,591
Industrial and Miscellaneous	281,732	--	(12,716)	269,016
	-----	-----	-----	-----
	\$ 2,440,404	\$ 11,576	\$ (25,373)	\$ 2,426,607
	=====	=====	=====	=====
Equity Securities -				
Available For Sale	\$ 15,000	\$ --	\$ (6,085)	\$ 8,915
	=====	=====	=====	=====
Equity Securities-				
Trading				\$ 113,643
				=====
Equity Securities -				
Other	\$ 62,500			
	=====			

Equity Securities - Other - consists of First Alliance Corporation (FAC) common stock carried at cost, plus stock dividends received. Through December 30, 2000 this stock is restricted as to sale or transfer and FAC retained the right of first refusal to purchase the shares through December 30, 2001. From issuance through 2001, fair market value has not been readily determinable.

The amortized cost and estimated fair values of debt securities, by contractual maturity, at December 31, 2001, are summarized below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay indebtedness without prepayment penalties.

Held to Maturity

Available for Sale

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	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due Six to Ten Years	\$ --	\$ --	\$ --	\$ --
Due after Ten Years	178,566	187,906	--	--
Mortgage Backed Securities	101,305	105,080	2,018,884	2,036,566
Total	\$ 279,871	\$ 292,986	\$2,018,884	\$2,036,566

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

NOTE B - INVESTMENTS (CONTINUED)

Proceeds from sales of available-for-sale securities were approximately \$1,231,000 for 2001 and \$3,609,000 for 2000. Gross gains of \$4,310 for 2001 and \$146,958 for 2000 and gross losses of \$0 for 2001 and \$55,279 for 2000 were realized on those sales.

Net losses on trading securities totaled \$139,527 for 2001 and \$118,763 for 2000 and related to trading securities held at December 31 of each respective year.

For 2000, gross losses of \$18,789 were included in net losses on trading securities as a result of transfers of securities from the available-for-sale category to the trading category.

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

NOTE B - INVESTMENTS (CONTINUED)

Notes receivable consist of the following at December 31:

Type of Loan	Date	Original Amount	Pct Int	Term	Status	2001 Balance	2000 Balance
Secured Real Estate	1/5/98	\$240,000	8.00%	10 Yrs	Current	\$167,870	\$188,478
Secured Real Estate	7/30/98	59,200	9.75%	10 Yrs	Current	38,495	46,322

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Secured Real Estate	4/29/00	47,000	6.50%	30 Yrs	Current	46,152	46,698
Secured Real Estate	4/29/00	47,000	6.50%	30 Yrs	Current	46,152	46,698
Secured Real Estate	11/10/00	42,000	7.00%	10 Yrs	Current	38,733	41,757
Secured Real Estate	7/11/00	225,000	7.50%	18 Mos	Current	225,000	225,000
Secured Real Estate	2/1/00	100,000	6.25%	10 Yrs	Current	100,000	100,000
Secured Real Estate	1/5/98	50,000	8.00%	10 Yrs	Current	34,973	39,266
Unsecured Individual	11/1/00	41,345	7.00%	4 Yrs	Current	32,065	41,345
Unsecured Corporate	3/30/01	12,594	8.00%	1 Yr	Current	12,593	12,593
Unsecured Corporate	12/5/01	100,000	5.75%	1 Yr	Current	100,000	--
Unsecured Corporate	8/23/01	150,000	7.00%	1 Yr	Current	150,000	150,000
		-----					
Other						--	3,721
		\$1,114,139				\$992,033	\$941,878
		=====				=====	=====

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

NOTE C - NOTE PAYABLE

Note payables consisted of the following at December 31:

	2001	2000
-Uncollateralized Loan From Shareholder	\$ 79,000	\$ --
-Uncollateralized Loan From Corporation	27,998	--
-Bank line of credit, interest payable quarterly (10.0% at December 31, 2000), due July 1, 2001; guaranteed by certain officers and directors	--	130,000
-Note payable to corporation, interest payable at 6%, due with annual principal installments of approximately \$111,000 through June 1, 2001	--	110,602
-Six and 95/100% note payable to bank, payable		

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in \$337 monthly installments through January 2003 collateralized by vehicle	4,208	7,652
	-----	
Total Note Payables	\$111,206	\$248,254
	=====	

NOTE D - STOCKHOLDERS EQUITY

On April 23, 1999, non-voting Series A Cumulative Preferred Stock was created with 5,000 shares issued and outstanding on December 31, 2001. The Series A Preferred Stock has liquidation priority (\$100 per share plus dividend arrearages, if any) over common stock upon dissolution.

On September 29, 2000, Series B Convertible Preferred Stock was created. The Series B Preferred Stock is noncumulative, non voting and is convertible on a one-to-one basis into shares of common stock at the option of the holders after March 31, 2003. The Series B Preferred Stock is senior to common stock and junior to Series A Preferred Stock in dividend priority. At December 31, 2001 there were 350,000 shares of Series B Preferred outstanding and upon liquidation is ranked equivalent to Series A Preferred Stock as to per share liquidation value (\$1.00 per share) and unpaid dividends.

NOTE E - INCOME TAXES

The Company's net operating loss carryforwards for tax purposes which begin expiring in 2010 are as follows:

	2001	2000
	-----	
SLC	\$1,834,653	\$1,595,000
GMLIC	75,605	329,000
	-----	
	\$1,910,258	\$1,924,000
	=====	

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Summit Life Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2001 AND 2000

NOTE E - INCOME TAXES (CONTINUED)

SLC and GMLIC file separate tax returns, Form 1120 and Form 1120L respectively. In 2000 SLC reported a taxable loss while GMLIC incurred taxable income and the same will occur in 2001 which causes SLC's loss carryforward to increase and GMLIC's to decrease. The primary operating income of SLC is a management fee paid by GMLIC which requires prior approval from the Texas Insurance Department to increase which makes it uncertain that all of the \$1,834,653 will be used.

The components of net deferred tax assets and changes in the related valuation allowance are as follows:

2001	2000
-----	

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Deferred Tax Assets		
Net Operating Loss Carryforwards	\$ 288,600	\$ 284,002
Capital Loss Carryforward	63,650	63,501
Policy Reserves and Policyholder Funds	7,397	14,835
Other	1,167	18,170
Valuation Allowance for Deferred Taxes	(263,258)	(293,666)
	97,556	86,842
Deferred Tax Liabilities		
Value of Purchased Insurance Business	(54,445)	(43,772)
Depreciation	(832)	(2,182)
Other	(5,039)	(3,647)
	(60,316)	(49,601)
Net Deferred Tax Asset	\$ 37,240	\$ 37,241
	=====	=====
Increase (Decrease) in Valuation Allowance	\$ (30,408)	\$ 64,147
	=====	=====

A reconciliation of income tax benefit at the statutory rate to the Company's effective rate at December 31 is as follows:

	2001	2000
Expected Statutory Rate	34%	34%
Small Life Insurance Company Deduction (60%)	(20)	(20)
Net Effect Tax Loss Carryforwards	(14)	(17)
Other	--	3
	0%	0%
Effective Tax Rate	=====	=====

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### Summit Life Corporation and Subsidiaries

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED DECEMBER 31, 2001 AND 2000

##### NOTE F - RELATED PARTY TRANSACTIONS

From time to time, the Company makes advances to and receives advances from affiliates, generally officers and stockholders. Such advances have no specified repayment terms but are generally short-term in nature.

##### NOTE G - COMMITMENTS AND CONTINGENCIES

Under its annuity contracts, the Company is committed to credit interest on policyholder account balances at guaranteed rates. During the first policy year, the guaranteed rates range up to 7.8%. After the first year, the lowest guaranteed rate is 3%.

Most states have established guaranty fund associations to ensure that



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policyholders receive the benefit of the insurance products they have purchased. The guaranty funds receive their funding through assessments to companies which write business in the respective states. The Company is liable for such mandatory assessments upon notification by the states; however, such assessments may be partially recovered through a reduction in future premium taxes.

Certain investments with carrying values of \$279,871 and \$277,979 were pledged to regulatory authorities in accordance with regulatory requirements at December 31, 2001 and 2000, respectively.

The Company leases certain equipment used in operations and storage space. Rent expense under these leases for 2001 and 2000 totaled \$1,560 and \$1,851, respectively and was paid on a month to month basis.

The Company is involved in various legal actions relating to its operation. Management believes that losses, if any, arising from such actions will not be material to the Company's consolidated financial statements.

### NOTE H - STATUTORY CAPITAL AND SURPLUS

SLC's insurance company subsidiary prepares its statutory-basis financial statements in accordance with accounting practices prescribed or permitted by the domiciliary state insurance department. "Prescribed" statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners (NAIC). "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

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### Summit Life Corporation and Subsidiaries

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED DECEMBER 31, 2001 AND 2000

### NOTE H - CAPITAL AND SURPLUS (CONTINUED)

change in the future. The NAIC has approved the Codification of Statutory Accounting Practices effective on January 1, 2001. The Company has determined that the primary effect of Codification is that goodwill can now be recorded as an admitted asset on its subsidiary's statutory financial statements.

GMLIC is required to maintain statutory capital and surplus of at least \$800,000. GMLIC's statutory capital and surplus, as reported at December 31, 2001, was \$853,192. Failure to meet the capital requirements could expose GMLIC to regulatory actions that may include restrictions on operations and growth, among other things. GMLIC cannot declare dividends which exceed the greater of 10% of statutory capital and surplus or the gain from operations of the preceding 12 months without the prior consent of the Texas Commissioner of Insurance. The maximum dividend which may be paid in 2002 without prior consent is \$53,192.

As a part of the regulatory process, SLC requested a review by the Securities and Exchange Commission (the "SEC") of its accounting treatment of the sale and repurchase of real estate subject to an operating lease. After review, the SEC advised SLC that, although SLC's proposed accounting treatment was consistent with the literal application of applicable accounting principles, the SEC

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requested that SLC restate certain items relating to the transactions. This reversed income reported on the sale of real estate subject to an operating lease of \$186,000 previously reported in the second quarter of 2001.

The transactions also affect the statutory financial statements prepared by the subsidiary company and GMLIC will request a review and approval of its accounting treatment by the Texas Department of Insurance. GMLIC believes its presentation complies with statutory rules and regulations as outlined in the NAIC's Accounting Practices and Procedures Manual and adopted by the Texas Department of Insurance.

If the Texas Department of Insurance requests that GMLIC restate all or part of the transactions, in such event, GMLIC may fail to meet the minimum capital and surplus required by Texas statutes. The Company has the option of requesting approval of the Commissioner to increase the valuation of the property based on independent appraisals and/or contributing additional funds as surplus to the subsidiary to comply with the statutes.

### NOTE I - REGULATORY MATTERS

At periodic intervals, the domiciliary state insurance department routinely examines the insurance company subsidiaries' statutory financial statements as part of their legally prescribed oversight of the insurance industry. Based on these examinations, the regulators can direct that the subsidiaries' statutory financial statements be adjusted in accordance with their findings.

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### Summit Life Corporation and Subsidiaries

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED DECEMBER 31, 2001 AND 2000

### NOTE J - REINSURANCE

The Company reinsures that portion of insurance risk which is in excess of its retention limits, generally under yearly renewable term contracts. Retention limits range up to \$5,000 on life policies. Reinsurance premiums are recognized as a reduction of insurance premiums and other considerations over the policy term and totaled \$47,000 for 2001 and \$37,000 for 2000.

Reinsurance does not discharge or diminish the primary liability of the Company on the risks reinsured; however, it does serve to limit the Company's maximum loss on risks. The Company would be liable for the reinsurance risks ceded to other companies in the event that reinsurers were unable to meet their obligations.

At December 31, 2001, reinsurance recoverables on policy claims were \$25,000 and was received January 2002. No recoverable was due the Company at December 31, 2000.

### NOTE K - EMPLOYMENT AGREEMENTS

The Company has employment agreements with its Chief Executive Officer and President, both Company stockholders. The employment agreements provide, among other things, for terms through March 2003, base and maximum salaries, increases to base salaries subject to Board of Director approval, annual bonuses, and benefits.

The agreements may be terminated by mutual consent, by the Company at its sole

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discretion without cause, or by the Company for cause, as defined. If the agreements are terminated for cause, as defined, severance payments of \$50,000 are payable to each employee. If the agreements are terminated without cause, severance payments to each employee will be equivalent to the maximum salary over the term of the agreements less amounts previously paid, but not less than \$360,000 for the President and \$450,000 for the Chief Executive Officer.

### NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of December 31, 2001 and 2000, respectively. Such information, which pertains to the Company's financial instruments, does not purport to represent the aggregate net fair value of the Company. The carrying amounts in the table are the amounts at which the financial instruments are reported in the consolidated financial statements.

Except as identified, all of the Company's financial instruments are held for purposes other than trading. The fair values of debt and equity securities are estimated based on quoted market prices for those or similar investments. The carrying value of certain notes receivable and policy loans approximate fair

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### Summit Life Corporation and Subsidiaries

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED DECEMBER 31, 2001 AND 2000

value due to nominal interest rate changes subsequent to issuance. The carrying amounts of cash, cash equivalents, short-term investments, and receivables approximate fair values because of the short maturity of those assets. Net cash surrender value is used in determining the fair value of investment contracts. Estimated fair value of notes payable is the discounted amount of future cash flows using the Company's current incremental rate of borrowing for similar liabilities.

### NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	2001		2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS	-----	-----	-----	-----
Debt Securities - Held to Maturity	\$ 279,871	\$ 279,871	\$ 328,075	\$ 341,725
Debt Securities - Available For Sale	2,180,629	2,180,629	2,426,607	2,426,607
Equity Securities - Available For Sale	291,248	291,248	8,915	8,915
Equity Securities - Trading	84,934	84,934	113,643	113,643
Equity Securities - Other	66,788	*	62,500	*
Notes Receivable	992,033	937,389	941,878	887,308
Policy Loans	113,865	113,865	33,382	33,382
Cash And Cash Equivalents	1,661,410	1,661,410	1,436,338	1,436,388
Receivables	92,576	92,576	51,912	51,912
FINANCIAL LIABILITIES				
Policy Holder Account				
Balances - Investment Contracts	\$4,063,756	\$3,933,403	\$4,256,203	\$4,101,159

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Notes Payable	111,206	111,206	248,254	248,254
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\* Market prices for First Alliance Corporation are not quoted on public exchanges. See Note B - Investments.

NOTE M - BUSINESS ACQUISITIONS

In August 2001 the Company acquired 100% of the life insurance business of Presidential Life Insurance Company in Dallas, Texas. The cost of the acquisition was approximately \$78,000 paid in cash.

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