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SUMMIT LIFE CORP
Form 10QSB
May 14, 2002

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the period ended March 31, 2002

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

(Exact name of registrant as specified 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

(Address of principal executive offices)

(405) 677-0781

(Issuer's telephone number)

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
--- ---

The number of shares outstanding of the Issuer's Common Stock, \$.01 par value, as of May 14, 2002 was 2,248,605, and 423,200 shares of common stock were subscribed and unissued but deemed to be issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes --- No X

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FORM 10-QSB

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Summit Life Corporation and Subsidiaries

Consolidated Balance Sheets

ASSETS

	March 31, 2002	December 31, 2001
	-----	-----
	(Unaudited)	
INVESTMENTS		
Debt securities-held to maturity	\$ 328,782	\$ 279,871
Debt securities-available for sale	1,849,551	2,180,629
Equity securities-trading	87,796	84,934
Equity securities-available for sale	329,052	291,248
Equity securities-other	66,788	66,788
Mortgages	686,772	697,374
Notes receivable	493,855	294,659
Short-term investments	0	0
Policy loans	108,993	113,865

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Limited partnerships	32,404	30,800
	-----	-----
	3,983,993	4,040,168
CASH AND CASH EQUIVALENTS	1,748,898	1,661,410
RECEIVABLES		
Accrued investment income	30,709	54,993
Other	36,470	37,583
	-----	-----
	67,179	92,576
PROPERTY AND EQUIPMENT-AT COST		
Building and improvements	129,419	129,419
Furniture and equipment	120,848	119,198
Automobiles	22,015	22,015
	-----	-----
	272,282	270,632
Less accumulated depreciation	(135,561)	(130,870)
	-----	-----
	136,721	139,762
Land	56,000	56,000
	-----	-----
	192,721	195,762
OTHER ASSETS		
Cost in excess of net assets of businesses acquired, less accumulated amortization	33,750	35,000
Deferred policy acquisition costs	125,059	107,765
Value of purchased insurance business	340,201	355,966
Deferred income taxes	37,240	37,240
Other	114,117	103,208
	-----	-----
	650,367	639,179
	-----	-----
	\$ 6,643,158	\$ 6,629,095
	=====	=====

The accompanying notes are an integral part of these interim financial statements

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Summit Life Corporation and Subsidiaries

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2002	December 31, 2001
	-----	-----
	(Unaudited)	
LIABILITIES		
Policy reserves and policyholder funds	\$ 5,378,539	\$ 5,364,682
Unpaid claims	16,000	24,971

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Accounts payable	74,670	63,116
Accrued liabilities	8,636	8,233
Notes payable	117,665	111,206
Other liabilities	0	0
	-----	-----
	5,595,510	5,572,208
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value	22,676	22,676
Preferred stock, series A, \$.001 par value, stated at liquidation value	500,000	500,000
Preferred stock, series B, \$1.00 par value	350,000	350,000
Common stock subscribed	423,200	422,200
Additional paid-in capital	2,923,596	2,923,596
Common stock of parent held by subsidiary	(95,000)	(95,000)
Accumulated other comprehensive income (loss)		
Unrealized appreciation (depreciation) of available for sale securities	13,304	13,709
Accumulated deficit	(3,090,128)	(3,080,294)
	-----	-----
	1,047,648	1,056,887
	-----	-----
	\$ 6,643,158	\$ 6,629,095
	=====	=====

The accompanying notes are an integral part of these interim financial statements

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Summit Life Corporation and Subsidiaries
Consolidated Statements of Operation
(Unaudited)

	Three Months Ended March 30,	
	2002	2001
	-----	-----
Revenues		
Insurance premiums	\$ 58,571	\$ 43,
Reinsurance premium ceded	15,169	(11,
	-----	-----
Net premium income	73,740	32,
Investment activity		
Investment income	67,399	80,
Net realized losses on sale of available for sale securities	--	(7,
Net gains (losses) on trading securities	14,063	(56,
Other	18,685	8,
	-----	-----
	173,887	57,
Benefits, losses and expenses		

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Policy benefits		54,422	35,
Change in policy reserves		17,870	38,
Interest expense		74	4,
Taxes, licenses and fees		5,581	6,
Depreciation and amortization		23,697	28,
General, administrative and other operating expenses		82,077	93,
		-----	-----
		183,721	208,
		-----	-----
Earnings (Loss) before income taxes		(9,834)	(150,
Provision for income taxes		--	--
		-----	-----
NET EARNINGS (LOSS)		\$ (9,834)	\$ (150,
Preferred Stock Dividend Requirement		12,500	12,
		-----	-----
NET EARNINGS (LOSS) APPLICABLE TO COMMON SHARES		\$ (22,334)	\$ (163,
		=====	=====
Earnings (Loss) per common share - Basic and diluted		\$ (0.01)	\$ (0
		=====	=====
Weighted average outstanding common shares, basic and diluted		2,670,861	2,248,
		=====	=====

The accompanying notes are an integral part of these interim financial statements

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Summit Life Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three Months Ending March 31, 2002
(Unaudited)

	Total	Common stock		Series A cumulative preferred stock	
		Shares issued	Par value	Shares issued	Liquidat value
	-----	-----	-----	-----	-----
Balance at January 1, 2002	\$ 1,056,887	2,267,605	\$ 22,676	5,000	\$ 500,
Common stock subscribed, not issued	1,000	--	--	--	--

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Dividends on Series A preferred stock	--	--	--	--	--
Comprehensive Income					
Net Income (loss)	(9834)	--	--	--	--
Other comprehensive income (loss)					
Unrealized gain on investments, net	(405)				

Comprehensive Income (loss)	(10,239)				
	-----	-----	-----	-----	-----
Balance at March 31, 2002	\$ 1,047,648	2,267,605	\$ 22,676	5,000	\$ 500,000
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these interim financial statements

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Summit Life Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY CONTINUED

Three Months Ending March 31, 2002
(Unaudited)

	Additional paid-in capital	Common stock of parent held by subsidiary	Stock subscribed	Accumulated other comprehensive income (loss)	Accumulated deficit
	-----	-----	-----	-----	-----
Balance at January 1, 2002	\$ 2,923,596	(95,000)	\$ 422,200	\$ 13,709	\$ (3,080,000)
Common stock subscribed, not issued	--	--	1,000	--	--
Dividends on Series A preferred stock	--	--	--	--	--
Comprehensive Income					
Net Income (loss)	--	--	--	--	(9,000)
Other comprehensive income (loss)					
Unrealized gain on investments, net				(405)	
Comprehensive Income					

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(loss)	-----	-----	-----	-----	-----
Balance at March 31, 2002	\$ 2,923,596	\$ (95,000)	\$ 423,200	\$ 13,304	\$ (3,090,
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these interim financial statements

Summit Life Corporation and Subsidiaries

Condensed Consolidated Statement of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents		
Net cash provided by (used in) operating activities	\$ 46,431	\$ (345,268)
Net cash provided by (used in) investing activities	52,415	173,838
Net cash provided by (used in) financing activities	(11,358)	186,126
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	87,488	14,696
Cash and cash equivalents at the beginning of the period	1,661,410	1,436,338
	-----	-----
Cash and cash equivalents at the end of the period	\$ 1,748,898	\$ 1,451,034
	=====	=====

The accompanying notes are an integral part of these interim financial statements

Summit Life Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information

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and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. For further information, refer to the consolidated annual financial statements and footnotes thereto for the year ended December 31, 2001.

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Item 2. Management's Discussion and Analysis or Plan of Operation.

This Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "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," as well as the risks disclosed 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.

General

The Company's primary focus is its life insurance operations.

Results of Operations

Three Months Ended March 31, 2002 Compared to Three Months ended March 31, 2001

Revenue. Total revenues increased 203% from \$57,322 to \$173,887 for the three months ended March 31, 2001 and March 31, 2002, respectively. Revenues attributable to life insurance increased 130% from \$32,018 to \$73,740 for the three months ended March 31, 2002, compared to the same period ended March 31, 2001. The increase was due primarily to implementation of the Company's marketing and sales programs and the acquisition of Presidential that was completed in August 2001.

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Investment income decreased from \$80,098 for the three months ended March 31, 2001 to \$67,399 for the three months ended March 31, 2002, primarily as a result of interest rate decreases implemented by the Federal Reserve during 2001 which reduced rates by approximately 4.5%.

Net gains on trading securities of \$14,063 were reported for the first quarter of 2002, compared to net losses on trading securities of \$56,431 for March 31, 2001, an improvement of \$70,494. 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 increased 107% from \$8,984 for the three months ended March 31, 2001 to \$18,685 for the three months ended March 31, 2002, due to the recognition of additional revenues from administrative contracts and other sources.

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Costs and Expenses. Total expenses decreased 12% from \$208,263 to \$183,721 for the three months ended March 31, 2001 and 2002, respectively. Such decrease was primarily attributable to outsourcing of certain functions as well as reduced depreciation and amortization expenses. Management continued its cost containment program in other areas as well.

Policy benefits increased from \$35,689 to \$54,422 for the comparable periods, due in part to the Presidential acquisition, which doubled in-force life insurance business. Policy reserves decreased \$21,053 for the comparable periods. Interest expense decreased from \$4,826 to \$74 for the comparable periods due to continuing reduction of Company debt. Depreciation and amortization decreased from \$28,957 to \$23,697 for the three months ended March 31, 2001 and 2002, respectively, as the Company continued to amortize the block of business associated with the acquisition of Great Midwest Life Insurance Company. General expenses decreased 12% from \$93,100 to \$82,077 as a result of management's cost containment programs. Such decrease was offset in part by certain promotional expenses designed to encourage agents to produce new business for the Company.

Losses. The Company reported a net loss for the three months ended March 31, 2002 of \$9,834, compared to a net loss for the three months ended March 31, 2001 of \$150,941, an improvement of \$141,107, or 93%. The Company has continued its cost containment programs, recognizing expense reductions of approximately \$350,000 since 1999. The Company expects its marketing programs will continue to build revenues and will complement any acquisitions which the Company may be able to complete.

The Company reported a net loss per share of \$0.01 per share for the three months ended March 31, 2002, compared to a net loss of \$0.07 per share for the three months ended March 31, 2001.

Liquidity and Capital Resources

Total assets remained fairly flat for the three months ended March 31, 2002, showing only a slight increase over year end numbers. Total liabilities (primarily insurance reserves for the future policy holder benefits) also remained flat, increasing to \$5,595,510 at March 31, 2002 compared to \$5,572,208 at December 31, 2001.

Total stockholders' equity was \$1,047,648 at March 31, 2002, compared to

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\$1,056,887 at December 31, 2001, reflecting the small operating loss sustained during the first quarter, an increase of 21%. The increase was attributable to an offering of the Company's common stock which was offset by operating losses during 2001.

The principal requirements for liquidity in connection with the Company's operations are its contractual obligations to policyholders and annuitants. The Company's contractual obligations include payments of surrender benefits, contract withdrawals, policy loans and claims under outstanding insurance policies and annuities. Payment of surrender benefits is a function of "persistency," which is the extent to which insurance policies are maintained by the policyholder. Policyholders sometimes do not pay premiums, thus causing their policies to lapse, or policyholders 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 profits associated with those policies that are lapsed or surrendered.

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The Company currently funds most of its activity directly from cash flow from operations and cash flow from financing activities, which includes deposits to policyholders' account balances. The Company's liquidity position showed improvement from the previous comparable quarter, with a 495% net increase in cash and cash equivalents.

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

The Company believes that cash from continuing operations should be sufficient to fund its operations and to make the annual 10% dividend on the Series A Preferred Stock for at least the next 12 months. The Company may not, however, generate sufficient cash flow for these purposes. The Company's ability to fund its operations and to make scheduled principal and interest 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.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits: none.
- (b) Reports on Form 8-K: none.

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SIGNATURES

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

SUMMIT LIFE CORPORATION
an Oklahoma corporation

Date: May 14, 2002

/s/Charles L. Smith

Charles L. Smith
President and Chief Operating Officer

Date: May 14, 2002

/s/Quinton L. Hiebert

Quinton L. Hiebert
Chief Accounting Officer