FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

FIRST ALLIANCE CORP /KY/

CIK:**910603**| IRS No.: **611242009** | State of Incorp.:**KY** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **033-67312** | Film No.: **96665287**
SIC: **6311** Life insurance

Business Address
2285 EXECUTIVE DR
STE 308
LEXINGTON KY 40505
6062997656

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

FORM 10-Q
(Mark One)

[] Quarterly Report Pursuant to Section 14 or 15(d) of the Securities Exchange Act of 1934 For the Period Ended September 30, 1996.

or

[] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From to

Commission file number : 33-67312

FIRST ALLIANCE CORPORATION

(exact name of registrant as specified in its charter)

Kentucky	61-1242009
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2285 Executive Drive, Suite 308 Lexington, Kentucky	40505
(Address of principal executive offices)	(Zip Code)

(606) 299-7656

(Registrant's telephone number, including area code)

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

Applicable Only to Corporate Insurers

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, No Par Value - 5,579,840 shares as of November 11, 1996

<TABLE>
FIRST ALLIANCE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in dollars)
<CAPTION>

<S>	September 30, 1996 (Unaudited) <C>	December 31 1995 <C>
Assets		
Investments:		
Available-for-sale fixed maturities, at fair value (Amortized cost $10,354,219 and $2,482,680 in 1996 and 1995, respectively)	10,078,527	2,496,695
Common stocks	125,000	-
Short-term investments	-	2,611,979
Total investments	10,203,527	5,108,674
Cash and cash equivalents	720,503	6,087,294
Accrued investment income	125,259	235,707
Deferred policy acquisition costs	542,256	51,212
Office furniture and equipment, less accumulated depreciation of $32,644 and $17,957 in 1996 and 1995, respectively	49,252	51,074
Deferred tax asset	52,077	-
Notes receivable	186,215	-
Goodwill	18,561	-
Other assets	163,796	114,298
Total assets	12,061,446	11,648,259
Liabilities, Minority Interest, and Shareholders' Equity		
Policy liabilities and accruals	881,371	185,225
Federal income taxes payable	9,137	32,247
Deferred tax liability	30,350	8,415
Other liabilities	122,691	80,840
Total liabilities	1,043,549	306,727
Shareholders' equity:		
Preferred stock 6% non-cumulative convertible callable, $5.00 par and liquidation value; 550,000 shares authorized 550,000 shares		

outstanding at December 31, 1995	-	2,750,000
Common stock, no par value, 8,000,000 shares authorized; 5,579,840 shares issued and outstanding at September 30, 1996 and 3,380,000 shares outstanding at December 31, 1995 at $.10 stated value	557,984	338,000
Additional paid in capital	11,979,226	9,411,216
Net unrealized investment gain/(loss)	(223,615)	9,250
Retained earnings - deficit	(1,295,698)	(1,166,934)
Total shareholders' equity	11,017,897	11,341,532
Total liabilities and shareholders' equity	12,061,446	11,648,259

See notes to condensed consolidated financial statements.

</TABLE>

<TABLE>
FIRST ALLIANCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in dollars)

<CAPTION>

<S>	Three months ended September 30, 1996 (Unaudited) <C>	Three months ended September 30, 1995 (Unaudited) <C>	Nine months ended September 30, 1996 (Unaudited) <C>	Nine months ended September 3 1995 (Unaudited) <C>
Revenues				
Premium income	203,470	-	623,932	-
Net investment income	153,935	125,287	459,677	284,326
Other income	5,768	-	11,597	-
Total revenue	363,173	125,287	1,095,206	284,326
Benefits and expenses				
Salaries, wages and employee benefits	344,926	339,329	344,926	339,329
Increase in policy reserves	90,761	-	265,818	-
Amortization of deferred policy acquisition costs	139,755	-	139,755	-
Other insurance benefits and expenses	133,506	-	133,506	
Professional and other fees	28,258	-	91,480	-
Other taxes	43,204	-	60,679	-
Other expenses	42,581	61,696	134,406	137,884
Total benefits and expenses	822,991	401,025	1,170,570	477,213

Loss from operations	(459,818)	(275,738)	(75,364)	(192,887)
Federal income taxes	14,600	-	53,400	-
Net loss	$ (474,418)	$ (275,738)	$ (128,764)	$ (192,887)
Net loss per common share	$ (.013)	$ (.006)	$ (.023)	$ (.061)

See notes to condensed consolidated financial statements.

</TABLE>

<TABLE>
FIRST ALLIANCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in dollars)

<CAPTION>

	Nine months ended	
	September 30, 1996 (Unaudited)	September 3 1995 (Unaudited)
<S>	<C>	<C>
Operating activities:		
Net cash provided/(used) in operating activities	(318,960)	(408,851)
Investing activities:		
Purchase of available-for-sale fixed maturities	(9,001,346)	-
Maturity of available-for-sale fixed maturities	1,000,000	-
Short-term investments sold/(acquired)	2,611,979	(1,190,158)
Purchase of furniture and equipment	(8,987)	(30,948)
Net cash used in investing activities	(5,398,354)	(1,221,106)
Financing activities:		
Deposits on annuity contracts	388,517	-
Proceeds from stock offering	-	7,767,800
Cost of stock offering	(37,994)	(908,268)
Net cash provided by financing activities	350,523	6,859,532
Increase/(decrease) in cash and cash equivalents	(5,366,791)	5,229,575
Cash and cash equivalents beginning of period	6,087,294	762,189
Cash and cash equivalents at end of period	720,503	5,991,764

See notes to condensed consolidated financial statements.

</TABLE>

Part I.

FIRST ALLIANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

(A) Basis of Presentation

The accompanying condensed consolidated financial statements of First Alliance Corporation and its subsidiaries (the "Company") for the nine month periods ended September 30, 1996 and 1995 are unaudited. However, in the opinion of the Company, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been reflected therein. Operating results for the nine months ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996.

Certain financial information which is normally included in financial statements prepared in accordance with generally accepted accounting principles, but which is not required for interim reporting purposes, has been omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 1995. Certain reclassifications have been made in the prior period financial statements to conform with the current year presentation.

(B) Subsidiary Operations

The Company's wholly owned insurance subsidiary, First Alliance Insurance Company ("FAIC"), was formed on December 29, 1994. Operations did not commence until November of 1995. Additionally, the Company's wholly owned venture capital subsidiary, First Kentucky Capital Corporation ("FKCC"), did not commence operations until April of 1996. Accordingly, the condensed consolidated financial information for the nine month period ending September 30, 1995, reflects only results of the Company during its initial public offering.

(C) Investments

Fixed maturity investments are classified as available-for-sale and are recorded at fair value. Adjustments to fair value are recognized as a separate component of shareholders' equity net of applicable federal income tax effects. Common stock investments consist of organizational investments in two start-up companies, Mid-American Alliance Corporation of Jefferson City, Missouri and First American Capital Corporation of Topeka, Kansas. Ownership interest in each company will represent less than ten percent. These investments are restricted under Rule 144 of the Securities and Exchange Act and may not be tradable until 2001. Since these investments are restricted, a fair value cannot be readily determined. Accordingly, Financial Accounting Standards No. 115 requires these investments be carried at cost.

The following table details the available-for-sale fixed maturity investment values at September 30, 1996:

	Amortized Cost	Gross Unrealized Loss	Fair Value
U.S. Government Obligations	$ 7,571,041	($ 226,971)	$ 7,344,070
Taxable Municipals	1,001,665	(11,581)	990,084
Corporate Obligations	1,781,513	(37,140)	1,744,373
	$10,354,219	($ 275,692)	$10,078,527

(D) Deferred Policy Acquisition Costs

Certain costs related to the acquisition of life insurance and annuities have been deferred to the extent recoverable from future policy revenues and gross profits. These acquisition cost are being amortized over the premium paying period of the related policies. Deferred policy acquisition costs are summarized below:

Balance beginning of year	$ 51,212
Policy acquisition costs, deferred	630,799
Amortization	(139,755)
Balance at September 30, 1996	$542,256

(E) Earnings Per Common Share

Earnings per share for the nine months ending September 30, 1996 and 1995 are based on the weighted average number of shares outstanding during the respective periods. During the Company's public stock offering, shares sold were assumed outstanding for a month in the month they were sold. Shares issued prior to January 1, 1995 are assumed to be outstanding for the entire year. During January, February and March of 1995, the Company sold 33,184, 23,594, and 23,328 Units respectively. During April, May and June the Company sold 31,943, 24,372, and 35,696 Units respectively. During July, August and September, the Company sold 39,168, 42,769 and 46,538 Units, respectively. On October 28, 1995, the public stock offering was completed and all Units sold are considered outstanding. On April 28, 1996, substantially all of the 550,000 preferred shares were converted to common stock (see Note F). Accordingly, the weighted average common shares outstanding are 5,579,840 and 3,159,375 at September 30, 1996 and 1995, respectively.

(F) Conversion of Preferred Stock

Pursuant to the terms of the Subscription Agreements, a subscriber could elect, at the time of the sale, to convert their shares of preferred stock to shares of common stock upon issuance of stock certificates. The subscriber was allowed to revoke this conversion during a six month period starting on the date the offering was completed. The offering was completed on October 28, 1995 and conversions were allowed until April 28, 1996. Each share of preferred stock could be converted into four shares of common stock. On April 28, 1996, substantially all of the preferred shareholders converted their preferred shares to common shares. Accordingly, the total number of common shares outstanding increased to 5,579,840 on April 28, 1996.

(G) Federal Income Taxes

Federal income tax expense is calculated based on the income of FAIC. During interim periods, federal income tax expense is estimated based on effective tax rates. Federal income tax expense at September 30, 1996 was estimated at $53,400 of which $27,600 is current expense.

(H) Medical Acceptance Corporation

On April 12, 1996, FKCC purchased common stock in treasury of Medical Acceptance Corporation ("MAC") of Lexington, Kentucky for $50,000 which resulted in a 51% ownership interest. The purchase, which was accounted for as a purchase, resulted in goodwill of $20,622 which is being amortized over five years. MAC purchases receivables from medical providers at a discount. The receivables are in the form of contracts in which the patient makes monthly payments of principal and interest directly to MAC. MAC retains all of the principal and interest paid. The contracts are for terms of six to thirty-six months and have an annual percentage rate of nineteen percent. In the event of default, MAC has total recourse against the medical provider for the amount of the patient's unpaid principal balance. FKCC provides MAC a $200,000 line of credit for the purchase of receivables. At September 30, 1996, MAC had used $16,000 of the line of credit.

MAC has had operating losses since inception and these losses are expected to continue through December 31, 1996. As such, the Company has included 100% of MAC's year-to-date operating losses of $34,842 in the condensed consolidated financial statements.

(I) Subsequent Event

On October 18, 1996, FKCC purchased 49% of LGP, Inc. of Kentucky for $49,000. LPG, Inc. is developing a dating service and interactive-video matchmaking service by combining a television dating show and an on-line profile library on the Internet.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

Total assets increased by $413,187 from December 31, 1995 to September 30, 1996. This increase is primarily related to insurance operations of FAIC. During 1996, deferred policy acquisition costs increased $491,044 net of amortization. A deferred tax asset of $52,077 was established as the result of unrealized losses on available-for-sale fixed maturity investments of FAIC. These increases were partially offset by a decrease in accrued investment income of $110,448. Fixed maturity investments were adjusted to fair value in accordance with Statement of Financial Accounting Standards No. 115. These adjustments, which totaled $275,692 at September 30, 1996, have no earnings effect. Investments in common stocks totaled $125,000.

Liabilities increased by $736,822 during the period from December 31, 1995 to September 30, 1996. The increase in liabilities is primarily related to the insurance operations of FAIC. At September 30, 1996, insurance related liabilities totaled $881,371 which includes $291,090 of life policy reserves and $352,691 of annuity contract liabilities.

Liquidity

Other than normal operating expenditures, the Company does not anticipate any significant capital expenditures. Management believes that the funds provided from operations and the working capital available from the public stock offering will adequately meet the Company's cash flow needs.

Results of Operations

A comparison of the results of operations during the first nine months of 1996 and 1995 is not meaningful since the Company was in the development stage until October 28, 1995. During 1995, interest income was the only source of revenue. During 1996, FAIC provided additional revenue from the sale of life insurance. For the nine months ended September 30, 1996, revenues totaled $1,095,206 of which $623,932 was related to FAIC's insurance sales. During the third quarter of 1996, revenues increased $363,173 which includes $203,470 of FAIC's premium income.

Associated with the sale of insurance policies is the establishment of a reserve in the event of policyholder deaths. The increases in policy reserves are recognized as an expense. For the nine months ending September 30, 1996, policy reserve expense totaled $ 265,818. Certain expenses related to the acquisition of life insurance, such as commissions and policy administration, are capitalized and amortized over the premium paying period of the policies. During 1996, $630,799 of these expenses were recorded as assets. Amortization of deferred policy acquisition costs totaled $139,755 during 1996 of which $31,737 was in the third quarter. Costs related to the administration of insurance policies and direct agency expenses totaled $133,506 for the nine months ended September 30, 1996 and are classified as other insurance benefits and expenses. This represents and increase of $50,860 during the third quarter. Included in these expenses are agent's health insurance, agency meetings and recruiting and training. Also included are costs related to the agency incentives. There were no insurance related expenses for the same periods in 1995. Professional and other fees totaled $91,480 as the result of additional audit expenses of $19,250 that were not accrued at December 31, 1995 and fees of $24,309 payable to the Company's Advisory Board Members. Other taxes includes intangibles tax on capital of $60,662 payable to the state of Kentucky.

Operating results of MAC from the date of acquisition (April 12, 1996) have been included in the condensed consolidated statement of operations. MAC's revenues and expenses from April 12, 1996 through September 30, 1996 totaled $3,730 and $38,572, respectively (see Note H).

Part II.

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

Exhibits - None

Form 8-K

The Company did not file any reports on Form 8-K during the nine months ended September 30, 1996.

Signatures

Pursuant to the requirements 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.

First Alliance Corporation
(registrant)

/s/ Michael N. Fink Date November 14, 1996
Michael N. Fink, President

/s/ Chris J. Haas Date November 14, 1996
Chris J. Haas, Secretary/Treasurer

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