Exhibit A

FINANCIAL STATEMENTS

Brooke Corporation
Consolidated Financial Statements
Years Ended December 31, 2002 and 2001

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brooke Corporation:

We have audited the accompanying consolidated balance sheets of

BROOKE CORPORATION

as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BROOKE CORPORATION as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Summers, Spencer & Callison, CPAs, Chartered

Topeka, Kansas

February 21, 2003

Brooke Corporation

Consolidated Balance Sheets

DECEMBER 31, 2002 AND 2001

ASSETS

	2002	2001
Current Assets		
Cash	$ 7,210,318	$ 4,787,869
Accounts and notes receivable, net	9,236,545	7,810,688
Note receivable, parent company	608,189	437,668
Other receivables	2,220,619	879,072
Securities	1,198	1,198
Interest-only strip receivable	1,883,276	184,412
Deposits	58,141	—
Prepaid expenses	503,899	328,912
Total Current Assets	21,722,185	14,429,819
Investment in Agencies	402,703	867,320
Property and Equipment		
Cost	4,173,940	2,402,101
Less: Accumulated depreciation	(1,854,952)	(1,752,325)
Net Property and Equipment	2,318,988	649,776
Other Assets		
Excess of cost over fair value of net assets	2,309,627	892,848
Less: Accumulated amortization	(405,749)	(255,469)
Prepaid commission guarantee	—	28,200
Goodwill	—	1,284
Prepaid finders fee	13,832	14,340
Contract database	68,855	39,692
Servicing asset	1,238,984	293,276
Agency assets	317,126	—
Restricted cash	208,498	—
Deferred tax asset	159,637	906,543
Net Other Assets	3,910,810	1,920,714
Total Assets	$ 28,354,686	$ 17,867,629

See accompanying summary of accounting policies and notes to financial statements.

Brooke Corporation

Consolidated Balance Sheets

DECEMBER 31, 2002 AND 2001

LIABILITIES AND STOCKHOLDERS' EQUITY

	2002	2001
Current Liabilities		
Accounts payable	$ 5,181,974	$ 2,299,366
Premiums payable to insurance companies	4,415,188	2,256,732
Unearned buyer assistance plan fees	1,666,417	928,232
Accrued commission refunds	327,405	296,842
Short term debt	991,646	695,515
Current maturities of long-term debt	2,272,159	3,470,608
Total Current Liabilities	14,854,789	9,947,295
Non-current Liabilities		
Servicing liability	53,292	42,260
Long-term debt less current maturities	10,405,933	7,398,935
Total Liabilities	25,314,014	17,388,490
Stockholders' Equity		
Common stock, $1 par value, 9,500,000 shares authorized, 774,973 and 704,018 shares issued and 763,923 and 692,968 shares outstanding	774,973	704,018
Preferred stock, $75 par value, 1,000 shares authorized, 781 shares issued and outstanding	58,600	58,600
Preferred stock, $25 par value, 464,625 shares authorized, 49,667 and 43,137 shares issued and outstanding	1,241,675	1,841,250
Preferred stock, $32 par value, 34,375 shares authorized, 24,331 shares issued and outstanding	778,592	—
Less: Treasury stock, 11,050 shares at cost	(39,500)	(39,500)
Notes receivable for common stock	—	(8,193)
Additional paid-in capital	1,875,333	703,023
Retained earnings (deficit)	(1,868,981)	(2,787,370)
Accumulated other comprehensive income	219,980	7,311
Total Stockholders' Equity	3,040,672	479,139
Total Liabilities and Stockholders' Equity	$ 28,354,686	$ 17,867,629

See accompanying summary of accounting policies and notes to financial statements.

Brooke Corporation

Consolidated Statements of Income

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Operating Income		
Insurance commissions	$ 30,539,743	$ 20,895,232
Interest income (net)	736,715	418,266
Facilitator income	1,589,254	450,000
Gain on sale of agencies	165,226	676,503
Buyer assistance plan fees	3,954,444	1,589,550
Gain on sale of notes receivable	2,762,673	507,670
Gain on extinguishment of debt	438,706	—
Loss on sale of fixed assets	—	(47,397)
Policy fee income	172,717	—
Other income	35,795	4,333
Total Operating Income	40,395,273	24,494,157
Operating Expenses		
Commissions expense	25,355,297	16,220,082
Payroll expense	7,014,533	4,112,648
Depreciation and amortization	809,210	440,614
Other operating expenses	4,270,578	1,991,054
Bond interest expense	496,657	343,672
Total Operating Expenses	37,946,275	23,108,070
Impairment loss	—	162,877
Income from Operations	2,448,998	1,223,210
Other Expenses		
Interest expense	252,217	169,561
Total Other Expenses	252,217	169,561
Income Before Income Taxes	2,196,781	1,053,649
Income tax expense	746,906	358,241
Net Income	$ 1,449,875	$ 695,408
Net Income per Share:		
Basic	1.66	.91
Diluted	1.56	.90

See accompanying summary of accounting policies and notes to financial statements.

Brooke Corporation

Consolidated Statements of Changes in Stockholders' Equity

YEARS ENDED DECEMBER 31, 2002 AND 2001

	Common Stock	Preferred Stock	Treasury Stock	Notes Receivable for Common Stock	Add'l Paid-In Capital	Retained Earnings	Accum Other Comprehensive Income	Total
Balances, December 31, 2000	$ 704,018	$ 58,600	$ (39,500)	$ —	$ 1,103,702	$ (2,452,773)	$ —	$ (625,953
Adjustment to record producer payable	—	—	—	—	—	(797,277)	—	(797,277
Adjusted Balances, December 31, 2000	704,018	58,600	(39,500)	—	1,103,702	(3,250,050)	—	(1,423,230
Dividends paid						(232,728)		(232,728
Preferred stock issued		1,841,250						1,841,250
Fair market value of contributed services					40,000			40,000
Loans for common stock issuances				(8,193)				(8,193
Deferred charges					(440,679)			(440,679
Comprehensive income:								
Interest-only strip receivable, fair market value							7,311	7,311
Net income						695,408		695,408
Balances, December 31, 2001	$ 704,018	$ 1,899,850	$ (39,500)	$ (8,193)	$ 703,023	$ (2,787,370)	$ 7,311	$ 479,139
Balances, December 31, 2001	$ 704,018	$ 1,899,850	$ (39,500)	$ (8,193)	$ 703,023	$ (2,787,370)	$ 7,311	$ 479,139
Dividends paid						(531,486)		(531,486
Preferred stock issued		2,001,646						2,001,646
Fair market value of contributed services					30,000			30,000
Equity conversion	70,155	(1,822,629)			1,752,474			—
Equity issuance	800				19,200			20,000
Loan proceeds for common stock issuances				8,193				8,193
Deferred charges					(629,364)			(629,364
Comprehensive income:								
Interest-only strip receivable, fair market value							212,669	212,669
Net income						1,449,875		1,449,875
Balances, December 31, 2002	$ 774,973	$ 2,078,867	$ (39,500)	$ —	$ 1,875,333	$ (1,868,981)	$ 219,980	$ 3,040,672

See accompanying summary of accounting policies and notes to financial statements.

Brooke Corporation

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Cash flows from operating activities:		
Net income	$ 1,449,875	$ 695,408
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	303,407	241,167
Amortization	505,803	199,447
Fair market value of contributed services	30,000	40,000
Gain on sale of inventory	(165,226)	(676,503)
Deferred income tax expense (benefit)	746,906	358,241
Impairment loss	—	162,877
Loss on sale of fixed assets	—	47,397
Gain on sale of notes receivable	(2,762,673)	(507,670)
(Increase) decrease in assets:		
Accounts and other receivables	(1,596,378)	(5,224,794)
Other receivables	(1,341,547)	(682,144)
Prepaid expenses and other assets	(233,128)	(181,270)
Increase (decrease) in liabilities:		
Accounts and expenses payable	4,090,604	648,691
Other liabilities	2,927,204	1,281,345
Net cash provided by (used in) operating activities	3,954,847	(3,597,808)
Cash flows from investing activities:		
Cash payments for property and equipment	(1,756,687)	(232,450)
Purchase of subsidiary and agency assets	(2,224,816)	—
Purchase of insurance agency inventory	(7,083,787)	(3,040,593)
Proceeds from sales of insurance agency inventory	12,400,359	6,546,531
Net cash provided by investing activities	1,335,069	3,273,488
Cash flows from financing activities:		
Deferred charges	(629,364)	(440,679)
Dividends paid	(531,486)	(232,728)
Cash proceeds from bond issuance	2,510,000	4,560,000
Cash proceeds from common stock issuance	20,000	—
Cash proceeds from preferred stock issuance	2,001,646	1,841,250
Payments on bond maturities	(1,005,000)	(760,000)
Line of credit advance	960,000	960,000
Advances on short-term borrowing	—	778,064
Payments on short-term borrowing	(695,515)	(909,088)
Advances on long-term debt	58,825	—
Payments on long-term debt	(5,556,573)	(2,368,143)
Net cash provided by (used in) financing activities	(2,867,467)	3,428,676
Net increase in cash and cash equivalents	2,422,449	3,104,356
Cash and cash equivalents, beginning of period	4,787,869	1,683,513
Cash and cash equivalents, end of period	$ 7,210,318	$ 4,787,869

See accompanying summary of accounting policies and notes to financial statements.

1. Summary of Significant Accounting Policies

(a) Organization

Brooke Corporation was incorporated under the laws of the State of Kansas on January 17, 1986. The Company's registered offices are located in Phillipsburg, Kansas. On December 31, 2002, Brooke Holdings, Inc. owned 67.1% of the Company's common stock. The Company's business activities include recruiting franchise agents, lending to franchise agents and consulting with franchise agents through its wholly owned subsidiaries. Most of the Company's revenues result from the sale of property and casualty insurance policies through franchise agents.

All of the Company's subsidiaries are 100% owned and controlled by the Company. Subsidiaries are grouped into one of three segments that correspond to the Company's three product lines: 1) master agent services, or franchising, 2) facilitator services, or those activities primarily associated with the transfer of agency ownership, 3) and brokerage services, or those activities primarily associated with the sale of insurance on a wholesale basis. Although the Company has multiple subsidiaries, the Company's services are sold and performed by one of three primary subsidiaries: Brooke Franchise Corporation (formerly Interstate Insurance Group, LTD), Brooke Credit Corporation and CJD & Associates, L.L.C.

Separate annual audited financial statements are typically prepared for Brooke Franchise Corporation, Brooke Credit Corporation and CJD & Associates, L.L.C. as each primary subsidiary operates independently from the other two primary subsidiaries, and from the Company, to perform its specific business purpose. Each primary subsidiary is also responsible for its own obligations, maintains its own separate funds, generates revenue in its own right, hires its own employees and maintains separate boards of directors. The Company provides accounting, administrative and legal support for the activities of its three primary subsidiaries and Company revenues are typically limited to dividends and administrative fees from the primary subsidiaries.

Subsidiaries in the Master Agent group include:

Brooke Franchise Corporation, is a Missouri corporation. On November 15, 2002, the Company changed the subsidiary name from Interstate Insurance Group, LTD to Brooke Franchise Corporation so that the corporate name better identifies the subsidiary's business purpose. The primary business purpose of this subsidiary is franchising and providing services to franchise agents through its network of regional offices and service centers. Effective December 31, 2002, Brooke Franchise Corporation became a franchisor and the assignee of franchise fees to be received by the Company pursuant to certain franchise agreements previously executed.

Brooke Agency, Inc., a Kansas corporation, is a licensed insurance agency that sells property and casualty insurance through the Company's network of franchise agents. Although Brooke Agency may be a party to contracts pursuant to which it receives revenues, it does not conduct any operations and does not have any revenues because all such revenues have been assigned to Brooke Franchise Corporation for performance of any associated obligations.

Brooke Investments, Inc., a Kansas corporation, may offer insurance annuities and mutual funds for sale through the Company's network of franchise agents. Brooke Investments, Inc. will determine whether registration as a broker-dealer is required and will register, if required, before investment services and securities are offered. Although Brooke Investments may be a party to contracts pursuant to which it receives revenues, it does not conduct any operations and does not have any revenues because all such revenues have been assigned to Brooke Franchise Corporation for performance of any associated obligations.

Brooke Agency Services Company of Nevada, LLC, is a licensed Nevada insurance agency that sells insurance through the Company's network of franchise agents. On November 18, 2002, the Company changed the subsidiary name from Brooke Corporation of Nevada to Brooke Agency Services Company of Nevada, LLC. This subsidiary is used for licensing purposes. Although Brooke Corporation of Nevada may be a party to contracts pursuant to which it receives revenues, it does not conduct any operations and does not have any revenues because all such revenues have been assigned to Brooke Franchise Corporation for performance of any associated obligations.

Brooke Agency Services Company LLC is a limited liability company organized under the laws of the state of Delaware on June 24, 2002. It is a bankruptcy-remote special purpose entity licensed as an insurance agency created to offer property, casualty, life and health insurance through certain agents with loans originated by Brooke Credit Corporation. It is anticipated that Brooke Agency Services Company LLC will acquire ownership of franchise agreements from the Company and/or Brooke Franchise Corporation as part of an arrangement to preserve collateral on behalf of Brooke Credit Corporation. It is also anticipated that Brooke Agency Services Company LLC will contract with the Company and/or Brooke Franchise Corporation for performance of any obligations to agents associated with all such franchise agreements.

First Brooke Insurance and Financial Services, Inc. is a Texas corporation controlled through an agreement with stockholders. This subsidiary is used for licensing purposes. Although First Brooke Insurance and Financial Services, Inc. may be a party to contracts pursuant to which it receives revenues, it does not conduct any operations and does not have any revenues because all such revenues have been assigned to Brooke Franchise Corporation for performance of any associated obligations.

Subsidiaries in the Facilitator group include:

Brooke Credit Corporation, a Kansas corporation, is a licensed finance company that originates loans primarily to the Company's franchise agents. This subsidiary also originates other types of loans through independent loan brokers and loan agents. Loans originated by Brooke Credit Corporation, and its loan brokers, are sold on a wholesale basis to participating lenders and other investors.

The American Agency, Inc., a Kansas corporation, consults with agent sellers under the trade name of Agency Business Consultants. Although The American Agency, Inc. is a licensed insurance agency, substantially all of the insurance program business of this subsidiary has been consolidated into CJD & Associates, L.L.C. because its insurance business is similar to that of this subsidiary. Although The American Agency, Inc. may be a party to consulting and other agreements, it does not conduct any operations and does not have any revenues because all such consulting and other fees have been assigned to Brooke Franchise Corporation as part of an agreement for Brooke Franchise Corporation to perform these consulting services on behalf of The American Agency through its regional offices and service center network.

The American Heritage, Inc., a Kansas corporation, consults with and otherwise assists agent buyers under the trade name of Heritage Agency Consultants. Although The American Heritage, Inc. is a licensed insurance agency, substantially all of the insurance program business of this subsidiary has been consolidated into CJD & Associates, L.L.C. because its insurance business is similar to that of this subsidiary. Although The American Heritage, Inc. may be a party to consulting and other agreements, it does not conduct any operations and does not have any revenues because all such consulting and other fees have been assigned to Brooke Franchise Corporation as part of an agreement for Brooke Franchise Corporation to perform these consulting services on behalf of The American Heritage through its regional offices and service center network.

Brooke Acceptance Company LLC is a limited liability company organized under the laws of the state of Delaware on July 31, 2002. It is a bankruptcy-remote special purpose entity of Brooke Credit Corporation and is the anticipated purchaser of Brooke Credit Corporation loans and issuer of certain floating rate asset backed notes.

Subsidiaries in the Brokerage group include:

CJD & Associates, L.L.C. is a limited liability company organized under the laws of the state of Kansas. This subsidiary is a licensed insurance agency that sells insurance programs and excess surplus insurance on a wholesale basis, under the trade name of Davidson-Babcock, through the Company's network of agents and through agents not necessarily affiliated with the Company.

Brooke Life and Health, Inc., a Kansas corporation, is a licensed insurance agency that sells life and health insurance through the Company's network of franchise agents, subagents and insurance producers. Although Brooke Life and Health may be a party to contracts pursuant to which it receives revenues, it does not conduct any operations and does not have any revenues because all such revenues have been assigned to Brooke Franchise Corporation for performance of any associated obligations.

Brooke Bancshares, Inc. was incorporated as a Kansas corporation in January of 2002 for the specific purpose of acquiring and owning one or more commercial banks. However, the Company does not have plans for any such acquisitions so this subsidiary does not have, and is not expected to soon have, any revenues or operations.

(b) Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

The following are significant estimates made by management: accrued commission refund obligations, reimbursement from agents for commission refund obligations, accrued producer payable expense, useful lives of assets, Buyers Assistance Program unearned and earned percentages, the fair value assumptions utilized for interest-only strip receivables and Buyers Assistance Program net cash flow expenditures associated with commission performance. It is at least reasonably possible these estimates will change in the near term.

(c) Cash Equivalents

For purposes of the statements of cash flows, the Company considers all cash on hand, cash in banks and short-term investments purchased with a maturity of three months or less to be cash and cash equivalents. Restricted cash is not included in cash equivalents.

(d) Allowance for Bad Debts

The Company generally considers all accounts and notes receivable to be fully collectible, therefore no allowance has been recognized for uncollectible amounts. However, as more fully disclosed in footnote 1.*(o)*, the Company has established an allowance for receivables resulting from the uncertain timing and amounts of commissions payments due to the Company pursuant to the cash flow assistance provisions of the Company's Buyer's Assistance Plan.

(e) Revenue Recognition

Commission revenue on insurance policy premiums is generally recognized as of the effective date of the policies or, in certain cases, as of the effective date or billing date, whichever is later. Contingent and profit sharing commissions are generally recognized when received. Premiums due from the insured to the Company are reported as assets of the Company and as corresponding liabilities, net of commissions, to the insurance carriers.

In the event of cancellation or reduction in premiums, for policies billed by an insurance carrier, a percentage of the commission revenue is often returned to the insurance carrier. The commission refunds are calculated by the insurance carriers and are typically deducted from amounts due to the Company from insurance carriers. The Company has estimated and accrued a liability for commission refunds of $327,405 and $296,842 as of December 31, 2002 and 2001, respectively.

Through its brokerage subsidiary, CJD & Associates, L.L.C., the Company receives fees for the placement and issuance of policies that are in addition to, and separate from, any sales commissions paid by insurance companies. These fees are not refundable and the Company has no continuing obligation.

Through its subsidiary The American Heritage, Inc., the Company provides consulting, marketing and cash flow assistance to agency owners during the first months of agency ownership through a Buyers Assistance Plan ("BAP") program. The Company has allocated the fees paid by agents for BAP assistance to each of the services provided by the Company and the fee associated with a particular service is recognized as revenue using the percentage of completion accounting method by referencing the costs incurred to date.

Many of the BAP services (inspection reports, operations analysis, marketing plan development) are provided by the Company before, or within thirty days after, agency acquisition. As such, approximately 82% of those fees related to BAP agreements executed in the fourth quarter of 2002 were immediately recognized as revenue. Any remaining BAP fees are typically recognized throughout the BAP period as the remaining BAP related services are performed. The allocation of fees for BAP agreements executed in the fourth quarter of 2002 changed from previous quarters as a result of discontinuing one BAP related service and initiating another. The allocation of future BAP fees may again change if the nature, or timing, of BAP related services change.

Revenues from finders fees, gains on sale of agencies, seller consulting and seller discounts are recognized immediately because the Company has no continuing obligation.

(f) Property and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. The following summarizes the estimated useful lives used by the Company for various asset categories:

Description	Useful Life
Furniture and fixtures	10 years
Office and computer equipment	5 years
Automobiles	5 years
Buildings	40 years

(g) Excess Cost of Purchased Subsidiary

Included in other assets are unamortized costs of purchased subsidiaries (Brooke Life and Health, Inc., The American Agency, Inc. and CJD & Associates, L.L.C.) in excess of the fair value of underlying net tangible assets acquired. The balance is being amortized over a 15-year period using an accelerated 150% declining balance switching to straight-line method. Amortization was $150,280 for the period ended December 31, 2002. In 2001, management elected to reclassify Investment in Agencies of $316,520 to this account because management's intention was no longer to sell these agencies, which, primarily consisted of an agency doing business as Brooke Life/Health.

On July 1, 2002, the Company acquired 100% of the outstanding shares of CJD & Associates, L.L.C. and $1,416,779 of the initial purchase price was allocated to Excess Cost of Purchased Subsidiary. The sellers may be entitled to an increase of the initial purchase price based on the amount of monthly net revenues received in future periods. In accordance with paragraph 80 of APB 16, *"Business Combinations"*, any such payments for an increased purchase price shall be recorded as Excess Cost of Purchased Subsidiary when made.

In the third and fourth quarters of 2000, Interstate Insurance Group, LTD's (now Brooke Franchise Corporation pursuant to amended articles of incorporation dated November 15, 2002) primary supplier began exiting the limousine insurance market, which comprised virtually all of Interstate's insurance business, and revenues began decreasing. Based on these circumstances, revenue and cash flow projections were revised, resulting in the recognition of impairment losses in the Interstate unit of the insurance agency business segment of $300,000 and $162,877 in 2000 and 2001, respectively. The amount of the Interstate impairment losses corresponds to the amounts recorded as Excess Cost of Purchased Subsidiary as disclosed in footnote 13.

(h) Income Taxes

Income taxes are provided for the tax effect of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to net operating loss carryforwards that are available to offset future taxable income. The Company files its federal income tax return on a consolidated basis with its subsidiaries.

(i) Investment in Agencies

The amount of assets included in the "Investment in Agencies" category is the total of purchase prices paid, or market prices if lower, for agency assets that the Company acquires to hold in inventory for sale to its agents. These assets are carried at the lower of cost or market because they are available for sale and not held for investment. The number of agencies purchased for this purpose for the year ended December 31, 2002 and 2001 was 25 and 23, respectively. Correspondingly, the number of agencies sold from inventory during the same periods was 26 and 21, respectively. In 2001, the Company elected to reclassify Investment in Agencies of $316,520 to Other Assets because management's intention was no longer to sell these agencies, which primarily consists of an agency doing business as Brooke Life and Health. At December 31, the Company's Investment in Agencies consisted of an Arizona agency purchased in October 2002 for $402,703. At December 31, 2001, the Company's Investment in Agencies consisted of a Missouri agency purchased for $272,874 and a Texas agency purchased for $594,446.

(j) Gain or Loss on Sale of Assets

"Investment in Agencies" gains or losses are the difference between the insurance agency's sales price and the insurance agency's book value, which is carried at the lower of cost or fair value. Insurance agencies are typically sold in the same units as purchased. However, in instances where a part, or segment, of an insurance agency unit is sold, then management estimates the fair value of the segment of the insurance agency unit being sold and the difference between the sales price and the resulting fair value estimation is the amount of the gain or loss. Any such fair value estimation is evaluated for reasonableness by comparing the market value estimation of the segment to the book value for the entire insurance agency unit. Fair value estimations are based on comparable sales information that takes into consideration agency characteristics such as customer type, customer account size, supplier size and billing methods.

(k) Contracts Database

The Contracts Database asset consists of the legal and professional fees associated with development of standardized loan documents by Brooke Credit Corporation. These contracts are available for sale to others that make these types of loans, by first purchasing a license from Brooke Credit Corporation. A complete review and revision is scheduled for all loan documents every five years, therefore, the asset is being amortized over a five year period.

Also included in this asset are the legal and professional fees associated with development of standardized documents to the securitization and rating of loan pools in Brooke Credit Corporation's portfolio. The development of these contracts creates a new security asset class, or program, whereby Brooke Credit Corporation can securitize multiple loan pools each year with minimal additional legal and professional fees incurred. This asset is being amortized over a five year period because the benefits of this new asset class are expected to last at least five years and because significant changes to the associated standardized documents will probably not be required for five years.

(l) *Deferred Charges*

Deferred charges relate to costs associated with the public offering of preferred stock and bonds. Selling expenses, auditor fees, legal costs and filing charges associated with the Company's public offering of stock totaled $1,070,043 and have been offset against stock proceeds. Similar costs associated with the Company's public offering of bonds totaled $414,088 and are classified as prepaid expenses that are amortized over a period ending at bond or debenture maturity. Net of amortization, the balance of all such prepaid expenses as of December 31, 2002 was $260,684.

(m) *Equity Rights and Privileges*

Convertible preferred stockholders shall be entitled to a 9% cumulative dividend in cash of the liquidation value of such per share per annum, as determined by the Board of Directors. Convertible preferred stock may convert to common stock at a rate of 13 shares of common stock for 1 share of preferred stock. Convertible preferred stock has no voting rights. Holders of convertible preferred stock, upon liquidation or dissolution of the Company, are entitled to be paid an amount equal to $75 for each share of preferred stock not converted into common stock before any amount may be paid to holders of common stock. In addition to the convertible preferred stock, the Company is authorized to issue 499,000 shares of preferred stock. The authorized shares consist of 100,000 shares of 2002 convertible preferred stock, 10,000 shares of 2002A convertible preferred stock, and 34,375 shares of 2002B convertible preferred stock. The remaining 354,625 shares are "undesignated" preferred stock. The holders of the 2002 and 2002A convertible preferred stock are entitled to receive a cumulative dividend in cash at the rate of 10% of the liquidation value of such stock per share per annum if determined by the Board of Directors. Prior to April 1, 2002, the holders of 2002 and 2002A convertible preferred stock converted 60,333 of their preferred shares into 60,333 shares of common stock. The holders of 2002 and 2002A convertible preferred stock that did not convert their shares to common shares prior to April 1, 2002 have no conversion rights. In the case of liquidation or dissolution of the Company, the holders of the 2002 or 2002A convertible preferred stock shall be entitled to be paid in full the liquidation value, $25 per share, after payment of full liquidation value to the holders of convertible preferred stock and before the holders of common stock. The holders of 2002B convertible preferred stock are entitled to receive a cumulative dividend in cash at the rate of 9% of the liquidation value of such stock per share per annum if determined by the Board of Directors. On or prior to May 15, 2002, the holders of 2002B convertible stock converted 9,822 of their preferred shares into 9,822 shares of common stock. The holders of 2002B convertible preferred stock that did not convert their shares to common shares on or prior to May 15, 2002 have no conversion rights. In the case of liquidation or dissolution of the Company, the holders of the 2002B convertible preferred stock shall be entitled to be paid in full the liquidation value, $32 per share, after payment of full liquidation value to the holders of convertible preferred stock, 2002 convertible preferred stock, 2002A convertible preferred stock, and before the holders of common stock. The common stockholders shall possess all rights and privileges afforded to capital stock by law, subject to holders of convertible preferred stock.

(n) Per Share Data

Basic net income per share is calculated by dividing net income, less preferred stock dividends declared in the period (whether or not paid) and the dividends accumulated for the period on cumulative preferred stock (whether or not earned), by the average number of shares of the Company's common stock outstanding. Total preferred stock dividends declared during the years ended December 31, 2002 and 2001 were $214,157 and $66,381, respectively. Diluted net income per share is calculated by including the probable conversion of preferred stock to common stock, and then dividing net income, less preferred stock dividends declared on non-convertible stock during the period (whether or not paid) and the dividends accumulated for the period on non-convertible cumulative preferred stock (whether or not earned), by the adjusted average number of shares of the Company's common stock outstanding.

		2002	2001
Basic Earnings Per Share			
Net Income		$ 1,449,875	$ 695,408
Less: Preferred Stock Dividends		(214,157)	(66,381)
Income Available to Common Stockholders		1,235,718	629,027
Average 2002 Common Stock Shares	757,518		
Less: 2002 Treasury Stock Shares	(11,050)	746,468	692,968
Basic Earnings Per Share		$ 1.66	$ .91

		2002	2001
Diluted Earnings Per Share			
Net Income		$ 1,449,875	$ 695,408
Less: 2002 Preferred Stock Dividends on Non-Convertible Shares		(148,686)	—
Income Available to Common Stockholders		1,301,189	695,408
Average 2002 Common Stock Shares	757,518		
Less: 2002 Treasury Stock Shares	(11,050)		
Plus: Allowance for Shares Converted During 2002	10,153		
Plus: Assumed Conversion of Convertible Preferred Shares in 2002	34,742		
Plus: Assumed Exercise of 41,350 Stock Options in 2002	41,350	832,713	776,771
Diluted Earnings Per Share		$ 1.56	$ .90

(o) Buyer Assistance Plan

Through its subsidiary The American Heritage, Inc., the Company offers a consulting and cash flow assistance program (Buyer Assistance Plan or "BAP") to provide assistance to agency buyers during the first months of insurance agency ownership. Although most of the BAP services provided by the Company are performed in the first month of agency ownership, some of the BAP services are performed later and a portion of BAP fees are therefore deferred until the cost of providing the service is incurred. Unearned buyer assistance plan and other related fees were $1,666,417 and $928,232 at December 31, 2002 and 2001, respectively.

Net cash flow assistance related to commission performance is recognized as an expense at the end of the BAP period, because of the uncertain timing of commission payments during ownership transition. Although not determinable until the end of the BAP period, the amount of the Company's net cash flow assistance expenditures associated with commission performance becomes more certain as the BAP period progresses. As such, if the amount of cumulative net cash flow assistance provided by the Company exceeds 200% of the monthly gross cash flow assistance then an allowance for any such excess amount is immediately charged to expense and the amount recognized as expense at the end of the BAP period adjusted accordingly. If necessary, as the BAP period nears expiration, the Company increases the allowance from that calculated above to the amount of estimated loss. The Company has estimated this allowance at December 31, 2002 to be $317,619. No allowance was recorded at December 31, 2001.

(p) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation of the financial statements.

(q) Accounts and Notes Receivable, Net

The net notes receivable included as part of the "Accounts and Notes Receivable, Net" asset category are available for sale and are carried at the lower of cost or market. Accordingly, any changes in the net notes receivable balances are classified as an operating activity.

(r) Other Receivables

Included in this category are reimbursements due from agents for possible cancellation of policies, advances of commission to agents, receivables from sellers on contracts of services and advances to vendors on behalf of franchise agents. Most of these amounts are collected within 30 days from borrowers or agents and all amounts are collected within 12 months from date of recording.

(s) Advertising

The Company expenses the costs of advertising as they are incurred. Total advertising expense for the period ending December 31, 2002 and 2001 was $843,354 and $300,564, respectively.

(t) Restricted Cash

Cash payments are made monthly to First National Bank of Phillipsburg as trustee for the Industrial Revenue Bonds. These funds are held by the trustee for payment of semi-annual interest and principal payments to bond holders on January 1st and July 1st. The Company also holds a $150,000 cash deposit made by a borrower for the purpose of making future loan payments and the use of these funds are restricted to this purpose.

(u) Compensated Absences

The Company has not accrued compensated absences, however, the total amount is not deemed to be material.

(v) Agency Assets

Included in other assets are unamortized costs of agency assets. The balance is being amortized over a 15-year period using an accelerated 150% declining balance switching to straight-line method. Amortization expense was $13,182 for the year ended December 31, 2002.

On August 1, 2002 the Company acquired insurance agency assets operating under the trade-name of Bornstein Financial Group for an initial purchase price of $200,000. The sellers may be entitled to an increase of the initial purchase price based on the amount of premiums received in future periods. In accordance with paragraph 80 of APB 16, *"Business Combinations"*, any such payments for an increased purchase price shall be recorded as an Agency Asset when made. The balance of this agency asset is being amortized over a 15-year period using an accelerated 150% declining balance method.

As a result of the acquisition of CJD & Associates, L.L.C. on July 1, 2002, the Company recorded additional agency assets of $130,308 (net of accumulated amortization of $65,155). CJD & Associates, L.L.C. had previously amortized this agency asset balance using a straight-line method over a 15-year period and the Company switched to an accelerated 150% declining balance method over a 15-year period.

(w) Value of Service Rendered

For the nine month period ended September 30, 2002, the fair value of Robert Orr's services was estimated at $30,000 even though he did not receive direct compensation from the Company. This value was established after analysis of the time Robert Orr spent on Company activities and not necessarily the amount of contribution made by Robert Orr, the importance of Robert Orr's contributions, or the Company's dependence on Robert Orr. On October 1, 2002, Robert Orr began receiving direct compensation from the Company at the rate of $15,000 per month as a result of the increased commitment required from Robert Orr to implement the Company's plans.

2. Notes Receivable

At December 31, 2002 and 2001, notes receivable consist of the following:

	2002	2001
Agency loans	$ 58,478,811	$ 37,712,937
Less: Agency loan participations	(57,647,259)	(34,699,956)
Commercial real estate loans	1,869,057	0
Less: Real estate loan participations	(1,869,057)	0
Equipment loans	0	1,927
Less: Equipment loan participations	0	(1,927)
Consumer loans	5,500	228,605
Less: Consumer loan participations	0	(220,412)
Total notes receivable, net	837,052	3,021,174
Interest earned not collected on notes *	429,211	461,970
Customer receivables	7,970,282	4,327,544
Total accounts and notes receivable, net	$ 9,236,545	$ 7,810,688

*The Company has a corresponding liability for interest payable to participating lenders in the amounts of $265,678 and $384,046 at December 31, 2002 and 2001, respectively.

Included in customer receivables are notes totaling $1,097,081 which were sold to a third party. However, this sale was not treated as a transfer of assets in accordance with SFAS 140 because there was no written agreement and it was not sufficiently demonstrated that the Company had surrendered control to the extent required to remove the assets from the Company's books. Accordingly, a payable of $1,516,614 was recorded for the amount of the notes and note payments collected but not remitted.

Loan participation represents the transfer of notes receivable, by sale, to "participating" banks and finance companies. The Company receives consideration from the participating entities. In accordance with SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, these transfers are accounted for as sales. The transferred assets (i.e. notes receivable) are isolated from the Company. The participating companies obtain the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the notes receivables. In addition, the Company does not maintain control over the transferred assets and the transfer agreements do not entitle the Company or obligate the Company to repurchase or redeem the notes receivable before their maturity. Based on management's experience the carrying value for notes receivable approximates the fair value.

When the Company sells participation in notes receivable to investors, it retains servicing rights and interest income which are retained interests in the loan participations. Gain or loss on sales of the notes receivable depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

In all loan participation sales, the Company retains servicing responsibilities for which it typically receives annual servicing fees ranging from .25% to 1.375% of the outstanding balance. In those instances whereby annual service fees received by the Company are less than the cost of servicing, which is estimated at .25% of the outstanding balance, a servicing liability is recorded. Additionally, the Company often retains interest income. The Company's right to interest income is not subordinate to the investor's interests and the Company shares interest income with investors on a prorata basis. Although not subordinate to investor's interests, the Company's retained interest is subject to credit and prepayment risks on the transferred financial assets.

On December 31, 2002, the Company had loan participation balances of $59,516,316 (307 loan participations certificates) for which servicing rights and interest receivable were retained. Corresponding pre-tax gains of $2,762,673 were recorded for the year ended December 31, 2002. On December 31, 2001, the Company had loan participation balances of $34,922,295 (111 loan participation certificates) for which servicing rights and interest receivable were retained. Corresponding pre-tax gains of $507,670 were recorded for the year ended December 31, 2001. Subsequent to the initial recording at fair value, the servicing asset is amortized in proportion to and over the period of estimated net servicing income. Additionally, impairment of the servicing asset is subsequently evaluated and measured. Subsequent to the initial recording at fair value, interest only receivables are measured as debt securities classified as available for sale.

Of the agency and real estate loans at December 31, 2002 and 2001, $18,150,555 and $10,123,323, respectively, were sold to various participating lenders with recourse to Brooke Credit Corporation. Such recourse is limited to the amount of actual principal and interest loss incurred and any such loss is not due for payment to the participating lender until such time as all collateral is liquidated, all actions against the borrower are completed and all liquidation proceeds applied. However, participating lenders may be entitled to periodic advances from Brooke Credit Corporation against liquidation proceeds in the amount of regular loan payments. Brooke Credit Corporation is not obligated, under any circumstances, to repurchase any loans sold to participating lenders prior to maturity or final resolution. All such recourse loans: a) have no balances more than 60 days past due; b) have adequate collateral; c) and are not in default. The expense provision associated with the Company's recourse obligation is based on the estimated fair value of the obligation.

To obtain fair values of retained interests and recourse obligations, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company typically estimates fair value based on the present value of future expected cash flows estimated using management's best estimates of key assumptions, credit losses, prepayment speed and discount rates commensurate with the risks involved.

The predominant risk characteristics of the underlying loans of the Company's servicing assets have been analyzed by management to identify how to stratify servicing assets for the purpose of evaluating and measuring impairment. The underlying loans are very similar in virtually all respects, however management has concluded that those underlying loans with adjustable interest rates should be evaluated separately from loans with fixed interest rates. Accordingly, different key economic assumptions would be used when determining the fair value of fixed rate loans than have been used for adjustable rate loans. However, the total amount of underlying loans that are fixed rate is not material so no evaluation of fair value has been made for the fixed rate loan stratum. As such, all underlying loans are part of the same stratum and have been evaluated using the key economic assumptions identified for adjustable rate loans. No valuation allowance has been established because the fair value for the adjustable rate loan stratum is not less than the carrying amount of the servicing assets.

Although substantially all of the company's loans are adjustable, a discount rate has been applied to reflect the net present value of future revenue streams. As such, changes in the net present value rate, or discount rate, resulting from interest rate variations, would adversely affect the asset's fair value.

The fair value of the interest-only strip receivable is calculated by estimating the net present value of interest income on loans sold using the discount rate and prepayment speeds noted in the following table. The fair value of the interest-only strip receivable is reduced by the amount of estimated credit losses, which are calculated using the estimated credit loss percentage noted in the following table. On December 31, 2002 and 2001, the fair value of the interest-only strip receivable recorded by the Company was $1,883,276 and $184,412, respectively. The Company has classified the interest-only receivable asset as available for sale.

The fair value of the "Servicing Asset" (or liability) is calculated by estimating the net present value of net servicing income (or expense) on loans sold using the discount rate and prepayment speeds noted in the following table. On December 31, 2002 and 2001, the fair value of the servicing asset recorded by the Company was $1,238,984 and $293,276, respectively.

Key economic assumptions used in measuring the retained interests and recourse obligations at the date of loan participation sales completed during the year were as follows (rates per annum):

	Agency Loans (Adjustable Rate Stratum)*	Agency Loans (Fixed-Rate Stratum)
Prepayment speed	10%	8%
Weighted average life *(months)*	104.6	64.9
Expected credit losses	5%	1.5%
Discount rate	8.5%	8.5%

*Rates for these loans are adjusted based on an index (for most loans, the New York prime rate plus 3.50%). Contract terms vary but, for most loans, the rate is adjusted annually on December 31st.

At December 31, 2002, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions are as follows:

	Agency Loans (Adjustable Rate Stratum)	Agency Loans (Fixed Rate Stratum)
Prepayment speed assumption (annual rate)	10%	8%
Impact on fair value of 10% adverse change	$ (85,378)	$ (0)
Impact on fair value of 20% adverse change	$ (166,555)	$ (0)
Expected credit losses (annual rate)	5%	.21%
Impact on fair value of 10% adverse change	$ (23,863)	$ (1,578)
Impact on fair value of 20% adverse change	$ (47,726)	$ (3,157)
Discount rate (annual)	8.5%	8.5%
Impact on fair value of 10% adverse change	$ (71,640)	$ (3,531)
Impact on fair value of 20% adverse change	$ (148,437)	$ (6,964)

These sensitivities are hypothetical and should be used with caution. The effect of a variation in a particular assumption on the fair value of the servicing asset and recourse liability is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. The numbers used above are actual dollar amounts and not listed in the thousands.

The above adverse changes are calculated on the Company's retained interests in loans sold to participating lenders totaling $59,516,316 and excludes unsold loans totaling $837,052. The above adverse changes for expected credit losses are calculated on the Company's retained interests in loans sold with recourse to participating lenders totaling $18,150,555 and excludes unsold and non-recourse loans totaling $42,202,813.

The following illustrate how the changes in fair values were calculated for 10% and 20% adverse changes in key economic assumptions.

<u>Effect of Increases in Assumed Prepayment Speed on Retained Servicing Interest</u>

	Adjustable Rate Stratum		Fixed Rate Stratum	
	10% Prepayment Increase	20% Prepayment Increase	10% Prepayment Increase	20% Prepayment Increase
Estimated cash flows from loan servicing fees	$ 2,173,224	$ 2,105,425	$ 175,638	$ 172,772
Servicing expense	(503,313)	(487,701)	(166,377)	(163,431)
Discount of estimated cash flows at 8.5% rate	(473,241)	(454,748)	(2,316)	(2,396)
Carrying value of retained interests after effect of increases	1,196,670	1,162,976	6,945	6,945
Carrying value of retained interests before effect of increases	(1,232,039)	(1,232,039)	(6,945)	(6,945)
Decrease of carrying value due to increase in prepayments	$ (35,369)	$ (69,063)	$ 0	$ 0

Effect of Increases in Assumed Prepayment Speed on Retained Interest (Strip Receivable)

	Adjustable Rate Stratum		Fixed Rate Stratum	
	10% Prepayment Increase	20% Prepayment Increase	10% Prepayment Increase	20% Prepayment Increase
Estimated cash flows from interest income	$2,452,402	$2,369,686	$ 257,176	$ 254,052
Estimated credit losses on recourse loans	(294,976)	(286,125)	(18,702)	(18,371)
Discount of estimated cash flows at 8.5% rate	(525,089)	(498,707)	(39,514)	(38,637)
Carrying value of retained interests after effect of increases	1,632,337	1,584,854	198,960	197,044
Carrying value of retained interests before effect of increases	(1,682,346)	(1,682,346)	(200,930)	(200,930)
Decrease of carrying value due to increase in prepayments	$ (50,009)	$ (97,492)	$ (1,970)	$ 3,886)

Effect of Increases in Assumed Credit Loss Rate on Retained Interest (Strip Receivable)

	Adjustable Rate Stratum		Fixed Rate Stratum	
	10% Credit Loss Increase	20% Credit Loss Increase	10% Credit Loss Increase	20% Credit Loss Increase
Estimated cash flows from interest income	$ 2,539,964	$ 2,539,964	$ 260,393	$ 260,393
Estimated credit losses on recourse loans	(334,696)	(365,124)	(20,947)	(22,851)
Discount of estimated cash flows at 8.5% rate	(546,785)	(540,220)	(40,094)	(39,769)
Carrying value of retained interests after effect of increases	1,658,483	1,634,620	199,352	197,773
Carrying value of retained interests before effect of increases	(1,682,346)	(1,682,346)	(200,930)	(200,930)
Decrease of carrying value due to increase in credit losses	$ (23,863)	$ (47,726)	$ (1,578)	$ (3,157)

Effect of Increases in Assumed Discount Rate on Retained Servicing Interest

	Adjustable Rate Stratum		Fixed Rate Stratum	
	10% Discount Rate Increase	20% Discount Rate Increase	10% Discount Rate Increase	20% Discount Rate Increase
Estimated cash flows from loan servicing fees	$ 2,244,743	$ 2,244,743	$ 178,581	$ 178,581
Servicing expense	(520,381)	(520,381)	(169,404)	(169,404)
Discount of estimated cash flows	(522,890)	(560,279)	(2,322)	(2,410)
Carrying value of retained interests after effect of increases	1,201,472	1,164,083	6,855	6,767
Carrying value of retained interests before effect of increases	(1,232,039)	(1,232,039)	(6,945)	(6,945)
Decrease of carrying value due to increase in discount rate	$ (30,567)	$ (67,956)	$ (90)	$ (178)

Effect of Increases in Assumed Discount Rate on Retained Interest (Strip Receivable)

	Adjustable Rate Stratum		Fixed Rate Stratum	
	10% Discount Rate Increase	20% Discount Rate Increase	10% Discount Rate Increase	20% Discount Rate Increase
Estimated cash flows from interest income	$ 2,539,964	$ 2,539,964	$ 260,393	$ 260,393
Estimated credit losses on recourse loans	(304,269)	(304,269)	(19,043)	(19,043)
Discount of estimated cash flows	(594,422)	(633,830)	(43,861)	(47,206)
Carrying value of retained interests after effect of increases	1,641,273	1,601,865	197,489	194,144
Carrying value of retained interests before effect of increases	(1,682,346)	(1,682,346)	(200,930)	(200,930)
Decrease of carrying value due to increase in credit losses	$ (41,073)	$ (80,481)	$ (3,441)	$ (6,786)

The following is an illustration of disclosure of expected static pool credit losses for loan participations sold with recourse to the Company. "Static pool credit loss" is an analytical tool that matches credit losses with the corresponding loans so that loan growth does not distort or minimize actual loss rates. The Company discloses static pool loss rates by measuring credit losses for loans originated in each of the last three years.

Actual & Projected Credit Losses (%) as of:	Agency Recourse Loans Sold in		
	2000	2001	2002
December 31, 2002	0	0	0
December 31, 2001	0	0	
December 31, 2000	0		

The following table presents quantitative information about delinquencies, net credit losses and components of loan participations sold with recourse as of and for the period ended December 31, 2002 and 2001:

Type of Loan	Total Principal Amount of Loans****		Principal Amounts 60 or More Days Past Due*		Net Credit Losses***	
	2002	2001	2002	2001	2002	2001
Participations Sold with Recourse	$ 18,150,555	$10,123,323	$ 0	$ 0	$ 0	$ 0
Portfolio Loans	837,052	2,783,523	0	0	0	0
Total Loans Managed**	$ 18,987,607	$12,906,846	$ 0	$ 0	$ 0	$ 0

*Loans 60 days or more past due are based on end of period total loans.
** Owned and participated loans in which the Company has a risk of loss.
*** Net credit losses are charge-offs and are based on total loans outstanding.
****Represents the principal amount of the loan. Interest receivable and servicing rights held for participation loans are excluded from this table because they are recognized separately.

As an employment incentive, Brooke Credit Corporation has loaned money to certain employees for the purpose of acquiring the Company's common stock. Of the consumer loans at December 31, 2002 and 2001, $0 and $198,862, respectively, have been made to employees for this purpose.

3. Property and Equipment

A summary of property and equipment and depreciation is as follows:

	2002	2001
Furniture and fixtures	$ 451,063	$ 279,649
Office and computer equipment	1,777,637	1,516,168
Automobiles	774,644	606,284
Building	1,170,596	—
	4,173,940	2,402,101
Less: Accumulated depreciation	(1,854,952)	(1,752,325)
Property and equipment, net	$ 2,318,988	$ 649,776
Depreciation expense	$ 303,407	$ 241,167

4. **Bank Loans, Notes Payable, and Other Long-Term Obligations**

	2002	2001
First National Bank & Trust, Phillipsburg, KS, line of credit, $960,000 available, $0 not utilized. Due January 2004. Interest rate is 8%. Collateralized by accounts receivable.	$ 960,000	$ 960,000
State Bank of Colwich, Colwich, KS, due August 2004. Interest rate is 11.75%, payable $1,435 monthly. Collateralized by insurance agency assets.	24,552	38,016
Chrysler Financial, Overland Park, KS, due February 2001 to December 2003. Interest rates are 7.80% to 8.94%, payable monthly. Collateralized by automobiles.	155,159	183,268
Brooke Investments, Inc., Phillipsburg, KS, due February 2007. Interest rate is 10.00%, payable $1,718 monthly. Note is sold to participating bank. Collateralized by certain agency assets acquired by Brooke Investments, Inc.	68,051	82,757
Premier Insurance Agency Interest rate is 5.00%, balance due January 2002. Collateralized by certain agency assets acquired by Brooke Corporation.	—	518,082
Hawkeye Insurance Associates, Inc. due August 2005. Interest rate is 0%, annual payments of $66,086. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	177,469	—
Charles Compton, due March 2004. Interest rate is 0% and annual payments of $133,333. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	245,312	—
Carol Klinger, Inc., due July 2003. Interest rate is 0%, balance due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	77,500	—
Watson & Associates Insurance Services, Inc. due November 2004. Interest rate is 0%, annual payments of $57,167. Collateralized by certain agency assets acquired by Brooke Corporation.	—	171,500
JL Rucker Insurance due January 2002. Interest rate is 0%. Collateralized by certain agency assets acquired by Brooke Corporation.	—	270,000
Burt Insurance Services due October 2005. Interest rate is 0% with annual payments of $126,700. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	340,243	—
InsurCare Group Inc. due October 2005. Interest rate is 0% with annual payments of $21,232. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	57,017	—
Arizona Economy Insurance due October 2005. Interest rate 0% with annual payments of $87,342. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	234,550	—

Stratmann Insurance Agency, Inc. due May 2004. Interest rate 0% with annual payments of $7,253 contingent on the renewal of specific policies.	$ 14,506	$ —
Slaton Insurance of Jacksonville, Inc. due August 2003. Interest rate is 0% and entire balance, subject to retention of revenue, due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	100,000	—
Cornutt-McIntire & Ratterman, Inc. due November 2005. Interest rate is 0%, quarterly payments of $20,280. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	222,068	—
R.D. Kennelly Insurance, Inc. due January 2005. Interest rate is 0%. Semi-annual payments of $179,959. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	670,247	—
Eric W. Schoenig, due June 2005. Interest rate is 8%, payable $6,991 monthly. Collateralized by certain agency assets.	189,520	—
Benny J. Ossi, due February 2004. Interest rate is 8%, payable $8,137 monthly. Collateralized by certain agency assets.	108,333	—
Rio Valley Insurance Group, Inc. due February 2004. Interest rate is 0% and the remaining balance is paid semi-annually with the 1st payment of $70,000 and the remaining two payments of $67,000. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	192,890	—
Dawn Insurance Agency, Inc. due May 2003. Interest rate is 0%, payable $43,322 annually. Collateralized by certain agency assets acquired by Brooke Corporation.	43,322	86,644
Phares and Lites Agency, Inc. due June 2002. Interest rate is 0%, entire balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	—	207,825
Bruner Insurance Agency, due September 2002. Interest rate is 5%, balance due September 2002. Collateralized by certain agency assets acquired by Brooke Corporation.	—	280,701
Lalumondier Insurance, Inc., due September 1, 2004. Interest rate is 5%, annual installments of $68,219. Collateralized by certain agency assets acquired by Brooke Corporation.	136,437	204,656
Anderson Insurance Agency, Inc, due May 2002. Interest rate is 7.5%, entire balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	—	163,300
Bond-Pyatt Insurance Agency, Inc., due August 2006. Interest rate at prime rate, first installment of $89,465 due January 2002, and annual installments of $89,465 thereafter. Collateralized by certain agency assets acquired by Brooke Corporation.	357,861	536,791

Della Bell Agency, due March 2002. Interest rate is 0%, entire balance due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	$ —	$ 97,500
Mid Florida Insurance, Inc., due January 2002. Interest rate is 0%, entire balance due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	—	645,000
All Drivers Insurance Inc., due September 2003. Interest rate is 5%, annual payments of $112,500. Collateralized by certain agency assets acquired by Brooke Corporation.	112,500	225,000
Gateway Realty of Columbus, Inc., due September 2010. Interest rate is 7%, annual principal payments of $67,345. Collateralized by certain agency assets acquired by Brooke Corporation.	538,763	606,109
Gary Karch & Associates A-1 Insurance, due December 2002. Interest rate is 0%. Collateralized by certain agency assets acquired by Brooke Corporation.	—	67,500
Kohn-Senf Insurance Agency, Inc., due December 2002. Interest rate is 5%, entire balance due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	—	159,390
Sun Century Insurance Agency, Inc., due December 2003. Interest rate is 5%, annual principal payments of $67,333. Collateralized by certain agency assets acquired by Brooke Corporation.	67,334	134,667
W.I. of Florida, Inc., due December 2003. Interest rate is 0%, annual payments of $73,176. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%	69,197	146,352
Cooper Insurance Agency, Inc., due August 2003. Interest rate is 0%, balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	310,420	—
JD Failla & Associates, due February 2003. Interest rate is 0%, quarterly payments of $127,188. Collateralized by certain agency assets acquired by Brooke Corporation.	131,810	—
Donna Sue Saffel, due March 2003. Interest rate is 0%, annual payments of $62,500. Collateralized by certain agency assets acquired by Brooke Corporation.	62,500	—
All Insurance, due March 2005. Interest rate is 0%, annual payments of $25,196. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	67,663	—
Able Insurance, due March 2006. Interest rate is 0%, annual payments of $45,867. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	159,849	—

Rebel Auto Insurance, Inc., due May, 2003. Interest rate is 0% and one payment of remaining balance is due May, 2003. Collateralized by certain agency assets acquired by Brooke Corporation.	$ 87,500	$ —
Crouch Insurance Agency, LLC, due May 2004. Interest rate is 0%, annual payments of $97,970. Collateralized by certain agency assets acquired by Brooke Corporation. Note balance is discounted based on imputed interest rate of 5.75%.	180,249	—
NCMIC Finance Corporation, Des Moines, IA, due June 2003. Interest rate is 7.75% and nine monthly payments of $38,017. Collateralized by unearned insurance premium.	221,916	—
Total bank loans and notes payable	6,384,738	5,785,058
Bonds and Debentures payable (See Note 5) and Capital lease obligation (See Note 6)	7,285,000	5,780,000
Total bank loans, notes payable and other long-term obligations	13,669,738	11,565,058
Less: Current maturities and short-term debt	(3,263,805)	(4,166,123)
Total long-term debt	$10,405,933	$ 7,398,935

None of the bank loans, notes payable and other long term obligations contain covenants that: require the Company to maintain minimum financial ratios or net worth; restrict management's ability to pay dividends; restrict management's ability to buy or sell assets; restrict management's ability to incur additional debt; or contain any subjective acceleration clauses.

Interest incurred on bank loans, notes payable and other long-term obligations for the period ended December 31, 2002 and 2001 is $748,874 and $513,193, respectively. Short-term debt represents the non-cash investing transactions utilized to purchase agency assets.

Bank loans, notes payable and other long-term obligations mature as follows:

Twelve Months Ending December 31	Bank Loans & Notes Payable	Capital Lease	Bonds & Debentures Payable	Total
2003	$ 2,838,805	$ 60,000	$ 365,000	$ 3,263,805
2004	2,223,372	70,000	5,020,000	7,313,372
2005	834,424	70,000	725,000	1,629,424
2006	218,754	80,000	—	298,754
2007	67,345	80,000	380,000	527,345
Thereafter	202,038	435,000	—	637,038
	$ 6,384,738	$ 795,000	$ 6,490,000	$ 13,669,738

5. **Long-Term Debt, Bonds Payable**

Brooke Credit Corporation has offered secured bonds (series 1997A, 1997B and 1997C) for sale to institutional investors in $5,000 denominations. Brooke Credit Corporation has also offered secured bonds (series 1998E, and 2001F) for sale to the public in $5,000 denominations. These bonds are issued in registered form with interest payable semi-annually on January 1st and July 1st of each year. These bonds are not callable by Brooke Credit Corporation and are not redeemable by the bondholder until maturity. Brooke Credit Corporation covenants to use all bond proceeds for the purposes of funding loans or purchasing receivables. Brooke Credit Corporation has no other debt and covenants not to incur obligations superior to its obligations to bondholders.

The Company is offering unsecured debentures (Series A and Series B) for sale to the public in denominations of $1,000 with a minimum purchase amount of $5,000. The bonds will be issued in book-entry form and registered in the name of The Depository Trust Company or its nominee. Interest is paid semi-annually on December 1st and June 1st. The Series B debentures are callable on the third year anniversary of the issuance of the debentures. The Company plans to use the debenture sale proceeds to acquire insurance agencies for inventory, make corporate acquisitions, purchase loan participation certificates or make short term working capital loans to insurance agents or our other subsidiaries.

At December 31, 2002 and 2001, the bonds and debentures payable consist of:

Series	Rate	Maturity	2002 Principal Value	2001 Principal Value
1997B Bonds	10.250%	Jan 1, 2002	$ —	$ 155,000
1997C Bonds	10.500%	Jan 1, 2003	365,000	365,000
1998E Bonds	10.125%	Jan 1, 2002	—	820,000
2001F Bonds	9.125%	Jul 1, 2004	5,020,000	4,440,000
Series A Debentures	8.000%	Dec 1, 2005	725,000	—
Series B Debentures	9.250%	Dec 1, 2007	380,000	—
Total			$ 6,490,000	$ 5,780,000

Interest payable is $255,962 and $205,415 at December 31, 2002 and 2001, respectively.

6. Long-Term Debt, Capital Leases

Phillips County, Kansas has issued Industrial Revenue Bonds for the purpose of purchasing, renovating, and equipping an office building in Phillipsburg, Kansas for use as a processing center. The total bonds issued were $825,000 with various maturities through 2012. As of December 31, 2002, all bond proceeds had been released for payment to various contractors and building construction was substantially complete.

The Company leases the building from Phillips County, Kansas. It may be purchased for a nominal amount at the expiration of the lease agreement. The Company is required to provide insurance coverage on the building as specified by the lessor. Under the criteria established by SFAS 13, "*Accounting for Leases*" this asset has been capitalized in the Company's financial statements.

Future capital lease payments and long term operating lease payments are as follows:

Period	Capital Real Estate	Operating Real Estate	Total
2003	$ 115,163	$ 454,160	$ 569,323
2004	121,450	256,824	378,274
2005	117,119	191,787	308,906
2006	122,450	116,846	239,296
2007	117,100	20,340	137,440
2008 and thereafter	521,843	—	521,843
Total minimum lease payments	$ 1,115,125	$ 1,039,957	$ 2,155,082
Less amount representing interest	(320,125)		
Total obligations under capital leases	795,000		
Less current maturities of obligations under capital leases	(60,000)		
Obligations under capital leases payable after one year	$ 735,000		

7. **Income Taxes**

The elements of income tax expense (benefit) are as follows:

	2002	2001
Current	$ —	$ —
Deferred	746,906	358,241
	$ 746,906	$ 358,241

The Company used net operating loss carryforwards to offset current tax expense by decreasing the deferred tax asset.

Reconciliation of the U.S. federal statutory tax rate to Brooke Corporation's effective tax rate on pretax income, based on the dollar impact of this major component on the current income tax expense:

	2002	2001
U.S. federal statutory tax rate	34%	34%
State statutory tax rate	4%	4%
Effect of the utilization of net operating loss carryforwards	(3)	(3)
Miscellaneous	(1)	(1)
Effective tax rate	34%	34%

Reconciliation of deferred tax asset:

	2002	2001
Beginning balance, January 1	$ 906,543	$ 1,264,784
Deferred income tax (expense) benefit	(746,906)	(358,241)
Balance, December 31	$ 159,637	$ 906,543

Expiration date of net operating loss carryforward is December 31, 2020 in the amount of $ 469,520.

8. **Employee Benefit Plans**

The Company has a defined contribution retirement plan covering substantially all employees. Employees may contribute up to 15% of their compensation. The Company may contribute an additional amount to the plan at the discretion of the Board of Directors. No employer contributions were charged to expense for the years ended December 31, 2002 and 2001.

9. **Concentration of Credit Risk**

The Company maintains cash balances at several banks. On December 31, 2002 and 2001, the Company had account balances of $1,281,038 and $4,943,574 respectively, with one bank which exceeds the $100,000 insurance limit of the Federal Deposit Insurance Corporation. The Company sells participation loans to several banks. On December 31, 2002, the Company had participation loans sold of $26,038,327 to one financial institution. This represents 44% of participations sold at December 31, 2002.

10. Segment and Related Information

During 2002, the Company acquired CJD & Associates which added an increasingly significant volume of insurance brokerage business to the Company's existing insurance franchise business. As such, for the year ended December 31, 2002, the Company has separated the segment previously referred to as Insurance Agency Business into two segments, Insurance Franchise Business and Insurance Brokerage Business. For the year ended December 31, 2001, commissions from insurance brokerage sales were not significant so all insurance business operations were reported in the Insurance Franchise Business segment and no insurance business operations were reported in the Insurance Brokerage Business segment.

Consulting and other fees earned by the Company are also an increasingly significant part of the Company's business. These fees (finders fees, buyers assistance plan fees, gains on sales of agencies, gains on seller debt extinguishment) are typically related to agency ownership transfers and were not previously allocated to any reportable segment. Because the Company's lending activities are also typically related to agency ownership transfers, these fees have been allocated to the lending segment previously referred to as Financial Services Business and renamed as Facilitator Services Business segment.

As a result of the changes described above, the Company's three reportable segments as of and for the years ended December 31, 2002 and 2001 consisted of its Insurance Franchise Business, Insurance Brokerage Business and its Facilitator Services Business.

The Insurance Franchise Business segment includes the sale of insurance on a retail basis primarily through franchise agents in the states of Arizona, Colorado, Florida, Georgia, Iowa, Illinois, Kansas, Louisiana, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Tennessee, Texas, and Utah. The Insurance Brokerage Business segment includes the sale of insurance on a wholesale basis through the Company's franchise agents and other agents not affiliated with the Company. The Facilitator Services Business segment includes the sale of those services, such as lending and consulting, which facilitate the transfer of insurance agency ownership.

Unallocated corporate-level expenses are reported in the reconciliation of the segment totals to the related consolidated totals as "other corporate expenses". Management evaluates the performance of its segments and allocates resources to them based on the net income before income taxes. The segments' accounting policies are the same as those described in the summary of significant accounting policies.

The table below reflects summarized financial information concerning the Company's reportable segments for the years ended December 31, 2002 and 2001:

2002	Insurance Franchise Business	Insurance Brokerage Business	Facilitator Services Business	Elimination of Intersegment Activity	Consolidated Totals
Insurance commissions	$ 27,966,137	$ 2,573,606	$ —	$ —	$ 30,539,743
Interest income	—	—	914,137	(674,079)	240,058
Gain on sale of notes receivable	—	—	2,762,673	—	2,762,673
Finders fees	—	—	1,589,254	—	1,589,254
Buyers Assistance Plan fees	—	—	3,954,444	—	3,954,444
Gain on sale of agencies	—	—	165,226	—	165,226
Gain on extinguishment of debt	—	—	438,706	—	438,706
Interest expense	252,217	—	—	—	252,217
Commissions expense	24,206,841	1,148,456	—	—	25,355,297
Depreciation and amortization	446,357	53,340	309,513	—	809,210
Segment assets	21,482,153	6,240,969	8,103,345	(7,471,781)	28,354,686
Expenditures for segment assets	1,641,974	114,713	—	—	1,756,687

2001	Insurance Franchise Business	Insurance Brokerage Business	Facilitator Services Business	Elimination of Intersegment Activity	Consolidated Totals
Insurance commissions	$ 20,895,232	$ —	$ —	$ —	$ 20,895,232
Interest income	(343,632)	—	578,302	(160,076)	74,594
Gain on sale of notes receivable	—	—	507,670	—	507,670
Finders fees	—	—	450,000	—	450,000
Buyers Assistance Plan fees	—	—	1,589,550	—	1,589,550
Gain on sale of agencies	—	—	676,503	—	676,503
Interest expense	169,561	—	—	—	169,561
Commissions expense	16,220,082	—	—	—	16,220,082
Depreciation and amortization	382,295	—	58,319	—	440,614
Segment assets	9,341,182	—	13,527,753	(5,001,306)	17,867,629
Expenditures for segment assets	232,790	—	—	—	232,790

Profit (Loss)	2002	2001
Insurance Franchise profit	$ 3,233,439	$ 3,779,662
Insurance Brokerage profit	1,433,013	—
Facilitator Services profit	8,779,645	3,583,630
Total segment profit	13,446,097	7,363,292
Unallocated amounts:		
Other income	35,795	—
Impairment loss	—	(162,877)
Other corporate expenses	(11,285,111)	(6,099,369)
Loss on sale of fixed Assets	—	(47,397)
Income before income taxes	$ 2,196,781	$ 1,053,649

11. New Accounting Standard

The FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", which is effective for the Company as of January 1, 2003. This Statement eliminates an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Management continues to evaluate the impact that adoption of SFAS 145 will have on its consolidated financial statements.

The FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities", which is effective for the Company for exit or disposal activities that are initiated after December 31, 2002. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company will adopt SFAS 146 for all exit or disposal activities that are initiated after December 31, 2002.

The FASB issued SFAS 147, "Acquisition of Certain Financial Institutions", which is effective for the Company for acquisitions for which the date of acquisition is on or after October 1, 2002. This Statement removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with FASB Statements No. 141 "Business Combinations", and No. 142 "Goodwill and Other Intangible Assets". In addition, this Statement amends FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", to include in its scope long-term customer-relationship intangible assets and credit cardholder intangible assets. The Company will adopt SFAS 147 accordingly.

The FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which is effective for the Company as of January 1, 2003. This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Management continues to evaluate the impact that adoption of SFAS 148 will have on its consolidated financial statements.

12. Related Party Information

At the request of the Company, Robert D. Orr, Leland G. Orr and Michael Hess have, in some cases, each personally guaranteed payment of amounts due suppliers by the Company under certain agency agreements. The amounts guaranteed under such agency agreements vary depending on the value of premiums to be collected under such agency agreements. Mr. Orr, Mr. Orr and Mr. Hess have also each personally guaranteed repayment of a $960,000 line of credit loan to First National Bank and Trust of Phillipsburg, Kansas. No compensation or other benefit is provided to Mr. Orr, Mr. Orr or Mr. Hess for making personal guarantees on behalf of the Company even though the continuance of these guarantees is important to the Company's prospects.

At the request of the Company, Robert Orr, Leland Orr, Michael Hess, and Shawn Lowry each personally guaranteed repayment to Brooke Credit Corporation of a promissory note made to Austin Agency, Inc., Brownsville, Texas, for the acquisition of an insurance agency. On December 31, 2002, the Company's total loss exposure related to this loan was zero because the entire loan balance of $1,036,333 was sold without recourse to an unaffiliated lender. Without Mr. Orr, Mr. Orr, Mr. Hess and Mr. Lowry's personal guarantees, Austin Agency did not qualify for credit and the Company would have missed an expansion opportunity. The four guarantors have each acquired 6.25% of the outstanding stock of Austin Agency, Inc. as consideration for their guarantees although Mr. Orr, Mr. Orr, Mr. Hess and Mr. Lowry have stated their intentions to return their stock to Austin Agency for cancellation as soon as their guarantees are released.

Robert D. Orr, Leland G. Orr and Michael Hess own 100% of the voting stock of GI Agency, Inc. Although GI Agency was a franchise agent for the Company in previous years, it is not currently a franchise agent and its business operations do not include insurance sales. On December 31, 2002, the Company's total loss exposure related to loans made by Brooke Credit Corporation to GI Agency was zero because all such loan balances, totaling $1,861,601, were sold without recourse to an unaffiliated lender.

Robert D. Orr, Leland G. Orr and Michael Hess own a controlling interest in Brooke Holdings, Inc., which owned 67.1% of the Company's common stock on December 31, 2002. Prior to enactment of the Sarbanes-Oxley Act in July, 2002, the Company had extended unsecured credit to Brooke Holdings in the total amount of $608,189 bearing interest at a rate of 9.5% per annum and maturing on December 31, 2002. Brooke Holdings expects to repay, or refinance with a third party, this credit extension by June 30, 2003.

Shawn Lowry is the sole manager of First Financial Group, L.C., a Kansas limited liability company. Michael Lowry and Shawn Lowry are the co-members of First Financial Group, L.C. Kyle Garst is the sole manager and sole member of American Financial Group, L.C., a Kansas limited liability company. First Financial Group, L.C. and American Financial Group, L.C. help insurance agencies qualify for credit by providing loan guarantees, typically in exchange for an ownership interest in the insurance agency. This activity provides significant benefit to the Company by qualifying more agents for credit. On June 1, 2001, First Financial Group, L.C., guaranteed 65% of a Brooke Credit Corporation loan to Palmer, L.L.C. of Baxter Springs, Kansas and received a 15% profit interest in Palmer, L.L.C. as consideration. The loan was originated on June 1, 2001 and is scheduled to mature on September 1, 2011. As of December 31, 2002, the entire loan principal balance of $694,971 was sold to unaffiliated lenders. The Company's exposure to loss on this loan is limited to a recourse obligation by Brooke Credit Corporation on $427,475 of loan participation balances. On August 30, 2002, First Financial Group, L.C. guaranteed 50% of a Brooke Credit Corporation loan to Stein and Associates, L.L.C. of Kearney, Missouri and received a 10% profit interest in Stein and Associates, L.L.C. as consideration. The loan was originated on August 30, 2002, and is scheduled to mature on August 15, 2014. As of December 31, 2002 the entire loan principal balance of $547,611 was sold to unaffiliated lenders. The Company's exposure to loss on this loan is limited to a recourse obligation by Brooke Credit Corporation on $410,703 of loan participation balances. On October 15, 2001 American Financial Group, L.C. and First Financial Group, L.C. each guaranteed 50% of a Brooke Credit Corporation loan to The Wallace Agency, L.L.C. of Wanette, Oklahoma and each received a 7.5% profit interest in The Wallace Agency. The loan was originated on October 15, 2001 and is scheduled to mature on January 1, 2014. As of December 31, 2002 the entire loan principal balance of $422,454 was sold to unaffiliated lenders. The Company's exposure to loss on this loan is limited to a recourse obligation by Brooke Credit Corporation on $291,590 of loan participation balances.

Anita Larson is married to John Arensberg, a partner in Arensberg Insurance of Overland Park, Kansas. The Company and Arensberg Insurance have entered into a franchise agreement pursuant to which Arensberg Insurance participates in the Company's master agent program. In addition, Brooke Credit Corporation has extended credit to Arensberg Insurance to acquire an insurance agency. The loan was made on substantially the same terms and conditions as provided to other agents and is schedule to mature on October 1, 2009. As of December 31, 2002, the entire loan principal balance of $714,337 was sold to unaffiliated lenders. The Company's exposure to loss is limited to a recourse obligation by Brooke Credit Corporation on $245,120 of loan participation balances. The Company entered into a franchise agreement and made loan advances to Arensberg Insurance partnership prior to Ms. Larson's employment by the Company. Furthermore, Ms. Larson is not a partner of Arensberg Insurance. The Company believes that the partners of Arensberg Insurance are established and credible businessmen and therefore believes its exposure to loss from its recourse obligation is limited.

Anita Lowry is a sister to Robert D. Orr and Leland G. Orr and the mother of Shawn Lowry and Michael Lowry and is married to Don Lowry. Don and Anita Lowry are shareholders of American Heritage Agency, Inc. of Hays, Kansas. The Company and American Heritage Agency, Inc. entered into a franchise agreement on February 28, 1999 pursuant to which American Heritage Agency, Inc. participates in the Company's master agent program. As of December 31, 2002, Brooke Credit Corporation had six loans outstanding to American Heritage Agency with total principal balances of $557,587. All such loans were made on substantially the same terms and conditions as provided to other agents and are scheduled to mature on October 15, 2003, August 15, 2003, January 16, 2005, September 1, 2010, February 1, 2014 and April 1, 2014. The Company's exposure to loss is limited to retained principal loan balances of $4,997 because all other loan balances have been sold to unaffiliated lenders without recourse.

The Company sells insurance to its Board of Directors and its employees. The aggregate of these transactions is not significant to the financial statements. The Company's employee handbook contains conflict of interest guidelines which are applicable to Company management and employees. The purpose of the guidelines is to prevent an employee in a position to influence a decision regarding the Company to use such influence for personal gain. Pursuant to the guidelines, an employee in such a position is required to notify an officer of the Company of the existence of such a situation.

13. Acquisitions and Divestitures

On June 30, 2000, the Company acquired 900 shares of Interstate Insurance Group, LTD from Gerald Lanio and William Tyer. These shares represented 100% of the shares outstanding. The total purchase price was estimated to be $1,200,000 plus Interstate's net tangible book value. However, that portion of the purchase price exceeding net tangible book value was contingent upon future revenues. Therefore, in accordance with paragraph 80 of APB 16, *"Business Combinations"*, the purchase price was recorded as an asset when cash payments were made to the sellers. Cash payments of $300,000 and $162,877 were recorded in 2000 and 2001, respectively, as Excess Cost of Purchased Subsidiary. As disclosed in footnote 1 (g) to these financial statements, these amounts were subsequently written off as impaired.

On August 1, 2002 the Company acquired insurance agency assets operating under the trade-name of Bornstein Financial Group for an initial purchase price of $200,000. The initial purchase price has been allocated to Agency Assets as disclosed in footnote 1 (v). The sellers are entitled to a $400,000 increase of the initial purchase price if premiums remain at certain minimum levels during the contingency period of March, 2003 through February, 2005. Any such purchase price increase shall be paid to the sellers semi-annually during the contingency period and, in accordance with paragraph 80 of APB 16, "*Business Combinations*", the payment shall be recorded as an asset when made. Bornstein Financial Group sells annuities using a seminar based sales approach.

On July 1, 2002, the Company acquired 100% of the outstanding shares of CJD & Associates, L.L.C. from Colin and Julie Davidson for an initial purchase price of $2,024,816. A portion of the initial purchase price has been allocated to Excess Cost of Purchased Subsidiary as disclosed in footnote 1 (g). The sellers are entitled to an increase of the initial purchase price equal to 30% CJD & Associates monthly net revenues during the contingency period of September 1, 2003 to September 1, 2007. Any such purchase price increase shall be paid to the sellers monthly during the contingency period and, in accordance with paragraph 80 of APB 16, *"Business Combinations"*, the payment shall be recorded as an asset when made. CJD & Associates, L.L.C. operates an insurance agency wholesaler under the trade name of Davidson Babcock. As an insurance agency wholesaler, Davidson Babcock typically sells insurance policies through retail agents and not directly to consumers. With regards to the acquisition of CJD & Associates, L.L.C., the Company has compiled the following pro forma information.

The following summary consolidated actual and pro forma financial information should be read in conjunction with our consolidated financial statements and their related notes. The consolidated statement of operations data for the years ended December 31, 2002 and 2001 labeled "Actual" are derived from, and are qualified by reference to, the audited financial statements included. The consolidated statement of operations data for the years ended December 31, 2002 and 2001 labeled "Pro Forma" are unaudited. The consolidated balance sheet data at December 31, 2002 and 2001 labeled "Actual" are derived from, and are qualified by reference to, the audited financial statements included. The consolidated balance sheet data at December 31, 2002 and 2001 labeled "Pro Forma" are unaudited.

Consolidated Statement of Operations Data:

	Year Ended December 31, 2002		Year Ended December 31, 2001	
	Actual	Pro Forma	Actual	Pro Forma
Operating income	$ 40,395,273	$ 42,641,650	$ 24,494,157	$ 27,585,452
Operating expenses	37,946,275	39,548,132	23,270,947	25,658,556
Other expenses	252,217	191,670	169,561	235,369
Income tax expense	746,906	986,629	358,241	575,119
Net income	1,449,875	1,915,219	695,408	1,116,408
Net income per share:				
Basic	1.66	2.30	.91	1.52
Diluted	1.56	2.12	.90	1.44

Consolidated Balance Sheet Data:

	December 31, 2002		December 31, 2001	
	Actual	Pro Forma	Actual	Pro Forma
Cash	$ 7,210,318	$ 7,210,318	$ 4,787,869	$ 5,175,931
Accts and notes receivable, net	9,236,545	9,236,545	7,810,688	10,016,270
Other current assets	5,275,322	5,275,322	1,831,262	1,858,607
Current Assets	21,722,185	21,722,185	14,429,819	17,050,808
Net property and equipment	2,318,988	2,318,988	649,776	754,304
Other noncurrent assets	4,313,513	4,313,513	2,778,034	3,917,427
Total Assets	$ 28,354,686	$ 28,354,686	$ 17,867,629	$ 21,722,539
Accounts payable	$ 5,181,974	$ 5,181,974	$ 2,299,366	$ 2,544,541
Premiums payable	4,415,188	4,415,188	2,256,732	4,237,671
Unearned buyer assistance fees	1,666,417	1,666,417	928,232	928,232
Current maturities of long-term debt	2,272,159	2,272,159	3,470,608	5,067,549
Other current liabilities	1,319,051	1,319,051	992,357	1,024,212
Current Liabilities	14,854,789	14,854,789	9,947,295	13,802,205
Long-term debt	10,405,933	10,405,933	7,398,935	7,398,935
Other noncurrent liabilities	53,292	53,292	42,260	42,260
Total Liabilities	25,314,014	25,314,014	17,388,490	21,243,400
Common stock	774,973	774,973	704,018	704,018
Preferred stock	2,078,867	2,078,867	1,899,850	1,899,850
Paid in capital	1,875,333	1,875,333	703,023	703,023
Treasury stock	(39,500)	(39,500)	(39,500)	(39,500)
Retained deficit	(1,868,981)	(1,868,981)	(2,787,370)	(2,787,370)
Notes receivable for common stock	—	—	(8,193)	(8,193)
Accumulated other comprehensive income	219,980	219,980	7,311	7,311
Total Liabilities and Stockholders' Equity	$ 28,354,686	$ 28,354,686	$ 17,867,629	$ 21,722,539

14. Stock Based Compensation

The Company's net income and net income per common share would have been reduced to the pro forma amounts indicated below if compensation cost for the Company's stock option plan had been determined based on the fair value at the grant for awards in accordance with the provisions of No. 123, *"Accounting for Stock-Based Compensation"*:

	2002
Net income:	
As reported	$ 1,449,875
Pro forma	1,310,691
Basic earnings per share:	
As reported	1.66
Pro forma	1.47
Diluted earnings per share:	
As reported	1.56
Pro forma	1.40

The fair value of the options granted during 2002 is estimated on the date of grant using the binomial option pricing model. The weighted-average assumptions used and the estimated fair value are as follows:

	2002
Expected term	2.1 years
Expected stock volatility	30%
Risk-free interest rate	5%
Dividend	1%
Fair value per share	$ 5.10

The Company has granted stock options to officers, certain key employees, and directors for the purchase of its common stock under a shareholder-approved plan. As of December 31, 2002, the Brooke Corporation 2001 Compensatory Stock Option Plan authorizes the issuance of up to 90,000 shares of the Company's common stock, for use in paying incentive compensation awards in the form of stock options. Unless otherwise required by law, the options are granted at fair value at the date of grant and, except for stock options awarded to selected officers and directors, become partially exercisable immediately. The options expire five to ten years from the date of grant. At December 31, 2002, there were 47,850 additional shares available for granting stock options under the stock plan.

	Shares Under Option	Weighted Average Exercise Price
Outstanding, January 1, 2002	—	$ —
Granted	47,500	25.00
Exercised	(800)	25.00
Relinquished	(2,000)	27.50
Terminated and expired	(3,350)	25.00
Outstanding, December 31, 2002	41,350	$ 25.00

No options to purchase shares were exercisable at December 31, 2002. The following table summarizes information concerning outstanding and exercisable options at December 31, 2002.

	Options Outstanding			Options Exercisable	
Range of Exercisable Prices	Number Outstanding	Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$25-27.50	41,350	2.1	$ 25.00	-0-	$ NA

On September 20, 2002, Robert D. Orr relinquished the 2,000 options granted to him by the Company's Compensation Committee.

15. Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 141, "*Business Combinations*," and SFAS No. 142, "*Goodwill and Other Intangible Assets*", collectively referred to as the "Standards," which were effective for the Company as of January 1, 2002. SFAS No. 141 supercedes APB No. 16, "*Business Combinations*." The provisions of SFAS No. 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) required that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS No. 141 also requires that, upon adoption of SFAS No. 142, the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS No. 142 supercedes APB No. 17, "*Intangible Assets*," and is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS No. 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

The following table adjusts reported net income and earnings per share for the year ended December 31, 2001 (prior to the adoption date) to exclude amortization of goodwill and other intangible assets with indefinite useful lives:

	Net Income	Basic EPS	Diluted EPS
As reported	$ 695,408	$ .91	$ .90
Amortization of goodwill	23,780	.00	.00
	$ 699,188	$ .91	$ .90

There are no intangible assets with indefinite useful lives, as of December 31, 2002, and December 31, 2001. The intangible assets with finite useful lives have a value of $2,303,691 and $719,611 as of December 31, 2002, and 2001, respectively. These assets are included in "Other Assets" in the balance sheet. Amortization expense was $195,006 and $137,348 for the years ended December 31, 2002 and 2001, respectively.

16. Supplemental Cash Flow Disclosures

Supplemental disclosures:		
Cash paid for interest	$ 725,569	$ 509,781
Cash paid for income tax	$ —	$ —
Non cash financing activity—additional paid in capital for contributed services	$ 30,000	$ 30,000

During the year ending December 31, 2002, the statement of cash flows reflect the purchase of agencies into inventory totaling $7,083,787 and the sale of agencies from inventory totaling $12,400,359. Agency inventory decreased $464,617 from the December 31, 2001 to December 31, 2002, however net cash of $5,316,572 was provided by the Company's agency inventory activities because $4,851,955 of the purchase price of agency inventory was provided by sellers per table below.

	2002	2001
Purchase of insurance agency inventory	$ (7,083,787)	$ (3,040,293)
Sale of insurance agency inventory	12,400,359	6,546,571
Net cash provided from sale of agency inventory	5,316,572	3,506,278
Cash provided by sellers of agency inventory	(4,851,955)	(4,057,078)
(Increase) Decrease in inventory on balance sheet	$ 464,617	$ (550,800)

17. Subsequent Events

During the first quarter of 2003, CJD & Associates, LLC, a wholly owned subsidiary of the Company, incorporated The DB Group, LTD in the country of Bermuda as a captive insurance company for the purpose of underwriting, as a reinsurer, a small portion of the insurance written by its agents. During the first quarter of 2003, CJD & Associates, LLC also incorporated DB Indemnity, LTD in the country of Bermuda as a captive insurance company for the purpose of insuring a portion of the professional (errors and omissions) liability exposure of the Company's agents.

During the first quarter of 2003, the Company's board declared a six-for-one stock split on its outstanding common stock (five new shares to be issued for each share held) to be effected in the form of a dividend to stockholders of record on March 3, 2003. This dividend was in addition to quarterly cash common stock dividends payable to holders of record on February 28, 2003 and quarterly cash preferred stock dividends payable to holders of record on March 31, 2003.

During the first quarter of 2003, the Company's board also authorized the designation, issuance and sale of 200,000 shares of the Company's preferred stock at a price of $50 per share, dividend rate not to exceed ten percent (10%) per annum, and the right to convert one share of preferred stock for five shares of common stock (after stock dividend dilution) prior to April 15, 2004.

During the first quarter of 2003, the Company's finance company subsidiary Brooke Credit Corporation, through its wholly owned special purpose entity Brooke Acceptance Company LLC, commenced an offering of securities through a new loan participation program. Through this program, securities are offered in increments of $150,000 to financial institutions, in a pool of commercial credits with outstanding principal balances totaling approximately $16.1 million. If the Company's offering is successful, the securities will carry a Single "A" Rating from Standard and Poor's Rating Agency.

As of this date, the Company has issued additional unsecured debentures to the public in the first quarter of 2003 totaling $1,359,000 ($369,000 Series A and $990,000 Series B).

During the first quarter of 2003, the Company expanded the autonomy and redefined the operations of its three primary subsidiaries, Brooke Franchise Corporation, Brooke Credit Corporation and CJD & Associates, LLC. New members were elected to the board of directors of the three primary subsidiaries and new officers appointed. With a single exception, the new board members and new officers of the primary subsidiaries do not also serve as board members or officers of the Company or another primary subsidiary. In an associated event, during the first quarter of 2003, the Company executed written agreements that assigned franchise fees and other such revenues to one of its primary subsidiaries, Brooke Franchise Corporation, as of December 31, 2002 for certain franchise agreements entered into by the Company prior to the date that the written agreement was executed. In consideration of this assignment, Brooke Franchise Corporation agreed to perform those services required pursuant to all such franchise agreements.

During the first quarter of 2003, the Company consummated insurance agency inventory purchases and sales as the result of purchase and sale agreements entered into on or before December 31, 2002. Pursuant to the terms of these agreements to acquire insurance agencies, the Company has or may incur additional liabilities to sellers in the first quarter of 2003 of $ 426,500.

18. Prior Period Adjustment

The Company has recorded a prior period adjustment for the year ended December 31, 2001 to accrue a payable for commissions due to producers in order to better match commission revenues with corresponding commission expenses by estimating the amount of commissions due producers at each period end based on historical commission payment rates. This prior period adjustment results in a $797,277 reduction in retained earnings at December 31, 2001. Retained earnings for December 31, 2001 were reduced from ($2,452,773) to ($3,250,050) as the result of accruing for a $1,207,995 producer expense payable and correspondingly increasing the deferred tax asset by $410,718 as of December 31, 2000. Any such adjustment for additional commission expense in 2001 was not material and therefore 2001 earnings were not affected by this adjustment. The amount of corresponding additional commission expense was recorded in the years of 2000 and prior.

The Company has also recorded prior period adjustments for the periods ended March 31, 2002, June 30, 2002 and September 30, 2002 to accrue a payable for commissions due to producers. The effect of these adjustments is recapped as follows:

	03/31/2002 Retained Earnings	06/30/2002 Retained Earnings	09/30/2002 Retained Earnings	03/31/2002 Net Income	06/30/2002 Net Income	09/30/2002 Net Income
As previously reported	$ (1,538,343)	$ (1,325,966)	$ (1,175,563)	$ 557,480	$ 865,161	$ 1,181,619
Change in accounting for producer expense accrual	(1,207,995)	(1,443,843)	(1,794,292)	0	(253,316)	(586,297)
Prior period adjustments affect on deferred tax assets	410,718	490,907	610,059	0	86,127	199,341
As adjusted	$ (2,335,620)	$ (2,278,902)	$ (2,359,796)	$ 557,480	$ 697,972	$ 794,663

	03/31/2002 Earnings Per Share	06/30/2002 Earnings Per Share	09/30/2002 Earnings Per Share	03/31/2002 Diluted Earn Per Share	06/30/2002 Diluted Earn Per Share	09/30/2002 Diluted Earn Per Share
As previously reported	$ .71	$ 1.03	$ 1.37	$ .64	$ .99	$ 1.30
Change in accounting for producer expense accrual	0	(.35)	(.79)	0	(.31)	(.70)
Prior period adjustments affect on deferred tax assets	0	.13	.27	0	.11	.24
As adjusted	$ .71	$ .81	$ .85	$ .64	$ .79	$ .84

19. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

BROOKE CORPORATION

Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2001 AND 2000

SS&C Summers, Spencer & Cavanaugh, CPAs, Chartered
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brooke Corporation:

We have audited the accompanying consolidated balance sheets of

BROOKE CORPORATION

as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BROOKE CORPORATION as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 and 18 to the financial statements, certain errors previously reported were discovered by management during the current year. Accordingly, the financial statements have been restated to correct the errors.

Summers, Spencer & Cavanaugh, CPAs, Chartered

Summers, Spencer & Cavanaugh, CPAs, Chartered
Topeka, Kansas
March 1, 2002
(except for Note 17 and 18 as to which the date is August 8, 2002)

Brooke Corporation

CONSOLIDATED FINANCIAL STATEMENTS

Brooke Corporation

Consolidated Balance Sheets

DECEMBER 31, 2001 AND 2000

ASSETS

	2001	2000
Current Assets		
Cash	$ 4,787,869	$ 1,683,513
Accounts and notes receivable, net	7,810,688	2,704,817
Note receivable, parent company	437,668	318,745
Other receivables	879,072	196,928
Securities	1,198	1,198
Interest-only strip receivable	184,412	-
Prepaid expenses	328,912	147,642
Total Current Assets	14,429,819	5,052,843
Investment in Agencies	867,320	316,520
Property and Equipment		
Cost	2,402,101	2,267,095
Less: Accumulated depreciation	(1,752,325)	(1,565,446)
Net Property and Equipment	649,776	701,649
Other Assets		
Excess of cost over fair value of net assets	892,848	576,328
Less: Accumulated amortization	(255,469)	(176,029)
Prepaid commission guarantee	28,200	68,068
Covenants not to compete	-	14,696
Goodwill	1,284	5,064
Prepaid finders fee	14,340	14,847
Contract database	39,692	42,526
Servicing asset	293,276	-
Deferred charges	-	44,564
Deferred tax asset	495,825	854,066
Net Other Assets	1,509,996	1,444,130
Total Assets	$ 17,456,911	$ 7,515,142

See accompanying summary of accounting policies and notes to financial statements.

Brooke Corporation

Consolidated Balance Sheets

December 31, 2001 and 2000

LIABILITIES AND STOCKHOLDERS' EQUITY

	2001	2000
Current Liabilities		
Accounts payable	$ 1,091,371	$ 442,680
Premiums payable to insurance companies	2,256,732	1,966,895
Unearned buyer assistance plan fees	928,232	-
Accrued commission refunds	296,842	233,566
Short term debt	695,515	826,539
Current maturities of long-term debt	3,470,608	1,334,651
Total Current Liabilities	8,739,300	4,804,331
Non-current Liabilities		
Servicing liability	42,260	-
Long-Term debt less current maturities	7,398,935	3,336,764
Total Liabilities	16,180,495	8,141,095
Stockholders' Equity		
Common stock, $1 par value, 9,500,000 shares authorized, 704,018 shares issued and 692,968 shares outstanding	704,018	704,018
Preferred stock, $75 par value, 1,000 shares authorized, 781 shares issued and outstanding	58,600	58,600
Preferred stock, $25 par value, 499,000 shares authorized, 73,650 shares issued and outstanding	1,841,250	-
Less: Treasury stock, 11,050 shares at cost	(39,500)	(39,500)
Notes receivable for common stock	(8,193)	-
Additional paid-in capital	703,023	1,103,702
Retained earnings	(1,990,093)	(2,452,773)
Accumulated other comprehensive income	7,311	-
Total Stockholders' Equity	1,276,416	(625,953)
Total Liabilities and Stockholders' Equity	$ 17,456,911	$ 7,515,142

See accompanying summary of accounting policies and notes to financial statements.

Brooke Corporation

Consolidated Statements of Income

YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Operating Income		
Insurance commissions	$ 20,895,232	$ 13,751,080
Interest income (net)	418,266	289,190
Finder's fee	450,000	-
Gain on sale of agencies	676,503	17,500
Buyer assistance plan fees	1,589,550	-
Loss on sale of fixed assets	(47,397)	-
Other income	4,333	-
Gain on sale of notes receivable	507,670	-
Total Operating Income	24,494,157	14,057,770
Operating Expenses		
Commissions expense	16,220,082	9,489,111
Payroll expense	4,112,648	2,757,550
Depreciation and amortization	440,614	405,735
Other operating expenses	1,991,054	1,458,732
Impairment loss	162,877	300,000
Bond interest expense	343,672	184,241
Total Operating Expenses	23,270,947	14,595,369
Income (Loss) from Operations	1,223,210	(537,599)
Other Expenses		
Interest expense	169,561	200,731
Total Other Expenses	169,561	200,731
Income (Loss) Before Income Taxes	1,053,649	(738,330)
Income tax expense (benefit)	358,241	(251,032)
Net Income (Loss)	$ 695,408	$ (487,298)
Net Income (Loss) per Share:		
Basic	.91	(.71)
Diluted	.90	(.69)

See accompanying summary of accounting policies and notes to financial statements.

Brooke Corporation

Consolidated Statements of Changes in Stockholders' Equity

YEARS ENDED DECEMBER 31, 2001 AND 2000

	Common Stock	Preferred Stock	Treasury Stock	Notes Receivable for Common Stock	Add'l Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, December 31, 1999	$ 704,018	$ 58,600	$ (39,500)	$ -	$ 1,063,702	$ (1,793,838)	$ -	$ (7,018)
Dividends paid						(171,637)		(171,637)
Fair market value of contributed services					40,000			40,000
Net loss						(487,298)		(487,298)
Balances, December 31, 2000	704,018	58,600	(39,500)	-	1,103,702	(2,452,773)	-	(625,953)
Dividends paid						(232,728)		(232,728)
Preferred stock issued		1,841,250						1,841,250
Fair market value of contributed services					40,000			40,000
Loans for common stock issuance				(8,193)				(8,193)
Deferred charges					(440,679)			(440,679)
Comprehensive income:								
Interest-only strip receivable, fair market value							7,311	7,311
Net income						695,408		695,408
Balances, December 31, 2001	$ 704,018	$ 1,899,850	$ (39,500)	$ (8,193)	$ 703,023	$ (1,990,093)	$ 7,311	$ 1,276,416

See accompanying summary of accounting policies and notes to financial statements.

Brooke Corporation

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Cash flows from operating activities:		
Net income (loss)	$ 695,408	$ (487,298)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation	241,167	285,609
Amortization	199,447	120,126
Fair market value of contributed services	40,000	40,000
(Gain) loss on sale of inventory	(676,503)	(17,500)
Deferred income tax expense (benefit)	358,241	(251,032)
Impairment loss	162,877	300,000
(Gain) loss on sale of fixed assets	47,397	-
Gain on sale of notes receivable	(507,670)	-
(Increase) decrease in assets:		
Accounts and notes receivables, net	(5,224,794)	(1,477,313)
Other receivables	(682,144)	67,928
Prepaid expenses	(181,270)	(159,083)
Increase (decrease) in liabilities:		
Accounts and expenses payable	648,691	(199,236)
Other liabilities	1,281,345	1,445,428
Net cash used in operating activities	(3,397,808)	(332,371)
Cash flows from investing activities:		
Cash payments for property and equipment	(232,450)	(404,147)
Purchase of insurance agency inventory	(3,040,393)	(412,885)
Sale of insurance agency inventory	6,546,531	153,000
Net cash provided by (used in) investing activities	3,273,488	(664,032)
Cash flows from financing activities:		
Deferred charges	(440,679)	-
Dividends paid	(232,728)	(171,636)
Cash proceeds from bond issuance	4,560,000	135,000
Cash proceeds from preferred stock issuance	1,841,250	-
Payments on bond maturities	(760,000)	-
Line of credit advance	960,000	660,000
Advances on short-term borrowing	778,064	2,391,568
Payments on short-term borrowing	(909,088)	(487,223)
Advances on long-term debt	0	639,737
Payments on long-term debt	(2,368,143)	(2,390,075)
Net cash provided by financing activities	3,428,676	777,371
Net increase (decrease) in cash and cash equivalents	3,104,356	(219,032)
Cash and cash equivalents, beginning of period	1,683,513	1,902,545
Cash and cash equivalents, end of period	$ 4,787,869	$ 1,683,513

See accompanying summary of accounting policies and notes to financial statements.

1. Summary of Significant Accounting Policies

(a) Organization

Brooke Corporation was incorporated under the laws of the State of Kansas on January 17, 1986. The Company's registered offices are located in Phillipsburg, Kansas. Brooke Holdings, Inc. owns 73.84% of the Company's common stock. The Company recruits fully vested franchise agents to sell insurance and financial services. Most of the Company's revenues result from the sale of property and casualty insurance, however, the Company also offers life and health insurance services, investment services and credit services.

All of the Company's subsidiaries are 100% owned and controlled by the Company. With the notable exceptions of Brooke Credit Corporation, The American Agency, Inc., and American Heritage, Inc., all of the Company's subsidiaries are held primarily for regulatory licensing and insurance company contracting purposes. Other than Brooke Credit Corporation and Brooke Bancshares, Inc., the subsidiaries' financial statements are not separately prepared. Brooke Credit Corporation, a Kansas corporation, is a licensed finance company that originates loans primarily to the Company's agents. Separate financial statements are regularly prepared for Brooke Credit Corporation, and Brooke Credit Corporation borrows money in its own right primarily through the issuance of bonds.

The Company's other subsidiaries include:

Brooke Life and Health, Inc., is a licensed insurance agency that sells life and health insurance through the Company's network of franchise agents, subagents and insurance producers.

Brooke Agency, Inc., is a licensed insurance agency that sells property and casualty insurance through the Company's network of franchise agents, subagents and insurance producers.

Brooke Investments, Inc., may offer insurance annuities and mutual funds for sale through the Company's network of franchise agents, subagents and insurance producers. Brooke Investments, Inc. will determine whether registration as a broker-dealer is required and will register, if required, before investment services and securities are offered.

Interstate Insurance Group, LTD, is a licensed insurance agency that sells insurance programs and "targeted market" policies through the Company's network of agents and through agents not necessarily affiliated with the Company under the trade name of American Interstate Insurance Agency.

The American Agency, Inc., consults with agent sellers and brokers agency sales under the trade name of Agency Business Brokers. This subsidiary is also a licensed insurance agency that sells insurance programs and "targeted market" policies through the Company's network of agents and through agents not necessarily affiliated with the Company under the trade name of American Insurance Agency.

The American Heritage, Inc., consults with and otherwise assists agent buyers under the trade name of Heritage Agency Consultants. This subsidiary is also a licensed insurance agency that sells insurance programs and "targeted market" policies through the Company's network of agents and through agents not necessarily affiliated with the Company under the trade name of American Heritage Insurance Agency.

1. Summary of Significant Accounting Policies (cont.)

Brooke Corporation of Nevada, is a licensed Nevada insurance agency that sells insurance through the Company's network of franchise agents, subagents and insurance producers. This subsidiary may also sell the programs and "targeted market" policies in Nevada through the Company's network of agents and through agents not necessarily affiliated with the Company.

Brooke Bancshares, Inc. was incorporated in January of 2002 for the specific purpose of acquiring and owning one or more commercial banks that will distribute banking services and products through the Company's agents. If the Company is successful in acquiring a bank, this subsidiary will become a bank holding company as defined pursuant to the Bank Holding Company Act of 1956, as amended.

First Brooke Insurance and Financial Services, Inc., is a Texas corporation controlled through a contractual agreement with stockholders. The corporation is used for licensing purposes. The corporation is consolidated with Brooke Corporation for financial statement reporting.

(b) Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

The following are significant estimates made by management: accrued commission refund obligations, reimbursement from agents for commission refund obligations, Buyers Assistance Program unearned and earned percentages, and the fair value assumptions utilized for interest-only strip receivables. It is at least reasonably possible these estimates will change in the near term.

(c) Cash Equivalents

For purposes of the statements of cash flows, the Company considers all cash on hand, cash in banks and short-term investments purchased with a maturity of three months or less to be cash and cash equivalents.

(d) Allowance for Bad Debts

The Company considers all accounts and notes receivable to be fully collectible, therefore no allowance has been recognized for uncollectible amounts.

(e) Revenue Recognition

Commission revenue on insurance policy premiums is generally recognized as of the effective date of the policies or, in certain cases, as of the effective date or billing date, whichever is later. Contingent and profit sharing commissions are generally recognized when received. Premiums due from the insured to the Company are reported as assets of the Company and as corresponding liabilities, net of commissions, to the insurance carriers.

1. Summary of Significant Accounting Policies (cont.)

(e) Revenue Recognition (cont.)

In the event of cancellation or reduction in premiums, for policies billed by an insurance carrier, a percentage of the commission revenue is often returned to the insurance carrier. The commission refunds are calculated by the insurance carriers and are typically deducted from amounts due to the Company from insurance carriers. The Company has estimated and accrued a liability for commission refunds of $296,842 and $233,566 as of December 31, 2001 and 2000, respectively.

The Company provides consulting, marketing and cash flow assistance to agency owners during the first year of agency ownership through a Buyers Assistance Plan ("BAP") program. The Company has allocated the fees paid by agents for BAP assistance to each of the services provided by the Company and the fee associated with a particular service is recognized as revenue when the service is performed. Many of the BAP services (inspection reports, operations analysis, marketing plan development) are provided by the Company before, or within thirty days after, agency acquisition so approximately 58% of BAP fees are immediately recognized as revenue. An additional 20% of BAP fees are recognized during the first year of agency ownership leaving approximately 22% of BAP fees unearned, and the revenue recognized, after the BAP period expires. The allocation of fees may change if the nature, or timing, of BAP related services change. Unearned BAP fees were $928,232 at December 31, 2001.

(f) Property and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

(g) Excess Cost of Purchased Subsidiary

Included in other assets are unamortized costs of purchased subsidiaries (Brooke Life and Health, Inc. and The American Agency, Inc.) in excess of the fair value of underlying net tangible assets acquired. The balance is being amortized over a 15-year period using an accelerated 150% declining balance switching to straight-line method. Amortization expense was $199,447 and $120,126 for the years ended December 31, 2001 and 2000, respectively. The "excess cost of purchased subsidiary" resulted from the purchase of a subsidiary corporation. In 2001, management elected to reclassify Investment in Agencies of $316,520 to this account because management's intention is no longer to sell the agencies. These agencies, primarily consisting of an agency doing business as Brooke Life/Health, were not amortized when available for sale during 2000 because commissions increased significantly during this period of time resulting in an increased market value. Therefore, in management's opinion, if the assets had been sold during 2000, the sales price would have been significantly more than the asset account balance of $316,520.

In the third and fourth quarters of 2000, Interstate Insurance Group, LTD's primary supplier began exiting the limousine insurance market, which comprised virtually all of Interstate's insurance business, and revenues began decreasing. Based on these circumstances, revenue and cash flow projections were revised, resulting in the recognition of impairment losses in the Interstate unit of the insurance agency business segment of $300,000 and $162,877, in 2000 and 2001, respectively. The amount of the Interstate impairment losses corresponds to the amounts recorded as Excess Cost of Purchased Subsidiary as disclosed in footnote #15.

1. Summary of Significant Accounting Policies (cont.)

(h) Income Taxes

Income taxes are provided for the tax effect of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to net operating loss carryforwards that are available to offset future taxable income. The company files its federal income tax return on a consolidated basis with its subsidiaries.

(i) Investment in Agencies

The assets included in the "Investment in Agencies" category is the purchase price paid for agency assets. These assets are available for sale and are carried at the lower of cost or market. In 2001, management elected to reclassify Investment in Agencies of $316,520 to other assets because management's intention is no longer to sell the agencies. These agencies, primarily consisting of an agency doing business as Brooke Life/Health, were not amortized when available for sale during 2000 because commissions increased significantly during this period of time resulting in an increased market value. This assumption of increased value is supported by valuation methods generally accepted by the insurance agency industry whereby agency assets are valued as a multiple of annual commissions. Therefore, in management's opinion, if the assets had been sold during 2000, the sales price would have been significantly more than the asset account balance of $316,520.

The Company acquires insurance agencies to hold in inventory for sale to its agents. The number of agencies purchased for this purpose in 2001, 2000 and 1999 was 23, 16 and 5, respectively. Correspondingly the number of agencies sold from inventory in 2001, 2000, and 1999 was 21, 16 and 5, respectively.

The balance at December 31, 2001 consists of two agencies. An agency in Kearney, Missouri was purchased at a cost of $272,874 and an agency in Dallas, Texas at a cost of $594,446.

(j) Gain or Loss on Sale of Assets

"Investment in Agencies" gains or losses are the difference between the insurance agency sales price and the insurance agency's book value, which is carried at the lower of cost or market value. Insurance agencies are typically sold in the same units as purchased, However, in instances where a part, or segment, of an insurance agency unit is sold, then management estimates the fair market value of the segment of the insurance agency unit being sold and the difference between the sales price and the resulting fair market value estimation is the amount of the gain or loss. Any such fair market value estimation is evaluated for reasonableness by comparing the market value estimation of the segment to the book value for the entire insurance agency unit. Fair market value estimations are based on comparable sales information that takes into consideration agency characteristics such as customer type, customer account size, supplier size and billing methods.

(k) Contracts Database

This asset consists of standardized loan documents which have been developed by Brooke Corporation. These contracts are available for sale to others that make these types of loans, by first purchasing a license from Brooke Corporation. A complete review and revision is scheduled for all loan documents every five years, therefore, the asset is being amortized over a five year period.

(l) Deferred Charges

Deferred charges relates to costs associated with the public offering of preferred stock and bonds. Selling expenses, auditor fees, legal costs and filing charges associated with the Company's public offering of stock totaled $440,679 and have been offset against stock proceeds. Similar costs associated with the Company's public offering of bonds totaled $291,371 and are classified as prepaid expenses that are amortized over a period ending at bond maturity. Net of amortization, the balance of all such prepaid expenses as of December 31, 2001 was $237,800.

1. Summary of Significant Accounting Policies (cont.)

(m) Equity Rights and Privileges

Convertible preferred stockholders shall be entitled to a 9% cumulative dividend in cash of the liquidation value of such stock per share per annum, as determined by the Board of Directors. Convertible preferred stock may convert to common stock at a rate of 13 shares of common stock for 1 share of preferred stock. Convertible preferred stock has no voting rights. Holders of convertible preferred stock, upon liquidation or dissolution of the Company, are entitled to be paid an amount equal to $75 for each share of preferred stock not converted into common stock before any amount may be paid to holders of common stock. In addition to the convertible preferred stock, the Company is authorized to issue 499,000 shares of preferred stock. The authorized shares consist of 100,000 shares of 2002 convertible preferred stock and 399,000 shares of "undesignated" preferred stock. The holders of the 2002 convertible preferred stock are entitled to receive a cumulative dividend in cash at the rate of 10% of the liquidation value of such stock per share per annum if determined by the Board of Directors. On or prior to April 1, 2002, the holders of 2002 convertible preferred stock have the right, at their option, to convert their shares to common stock; one share of 2002 convertible preferred stock will be exchanged for one share of common stock. In the case of liquidation or dissolution of the Company, the holders of the 2002 convertible preferred stock shall be entitled to be paid in full the liquidation value, $25 per share, after payment of full liquidation value to the holders of convertible preferred stock and before the holders of common stock. The common stockholders shall possess all rights and privileges afforded to capital stock by law, subject to holders of convertible preferred stock.

(n) Per Share Data

Basic net income per share is calculated by dividing net income, less preferred stock dividends declared in the period (whether or not paid) and the dividends accumulated for the period on cumulative preferred stock (whether or not earned), by the average number of shares of the Company's common stock outstanding. Diluted net income per share is calculated by including the probable conversion of preferred stock to common stock, and then dividing net income by the adjusted average number of shares of the Company's common stock outstanding. Preferred stock dividends declared during the periods ended December 31, 2001 and 2000 were $66,381 and $5,276, respectively.

Basic Earnings Per Share		2001	2000
Net Income		$ 695,408	$ (487,298)
Less: Preferred Stock Dividends		$ (66,381)	$ (5,276)
Income Available to Common Stockholders		$ 629,027	$ (492,574)
Common Stock Shares	704,018		
Less: Treasure Stock Shares	(11,050)	692,968	692,968
Basic Earnings Per Share		$ .91	$ (.71)

Diluted Earnings Per Share		2001	2000
Net Income		$ 695,408	$ (487,298)
Common Stock Shares	704,018		
Less: Treasure Stock Shares	(11,050)		
Plus: Shares from Assumed Conversions			
781 Shares of $75 par at 13 to 1	10,153		
73,650 Shares of $25 at 1 to 1	73,650	776,771	703,121
Diluted Earnings Per Share		$ .90	$ (.69)

1. Summary of Significant Accounting Policies (cont.)

(o) Buyer Assistance Plan

The Company introduced a specialty program (buyer assistance plan) to provide agency buyers assistance with their new agency ownership. The Company assists new agency owners by providing an inspection report on their new agency, marketing assistance, and commission cash flow assistance. Most of the service provided by the Company is performed in the early stages of agency ownership, however, there is a portion of "ongoing" service for the first year. Unearned buyer assistance plan fees are $928,232 at December 31, 2001.

(p) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation of the financial statements.

(q) Accounts and Notes Receivable, Net

The net notes receivable included as part of the "Accounts and Notes Receivable, Net" asset category are available for sale and are carried at the lower of cost or market. Accordingly, any changes in the net notes receivable balances are classified as an operating activity.

(r) Other Receivable

Included in this category is reimbursements due from agents for possible cancellation of policies, advances of commission to agents, receivable from seller on contract of services and advances to vendors on behalf of franchise agents. Most of these amounts are collected within 30 days from borrowers or agents and all amounts are collected within 12 months from date of recording.

2. Notes Receivable

At December 31, 2001 and 2000, notes receivable consist of the following:

	2001	2000
Agency loans	$ 37,712,937	$ 21,075,143
Less: Agency loan participation	(34,699,956)	(20,897,316)
Equipment loans	1,927	1,927
Less: Equipment loan participation	(1,927)	(1,927)
Consumer loans	228,605	173,745
Less: Consumer loan participation	(220,412)	(173,745)
Total notes receivable, net	3,021,174	177,827
Interest earned not collected on notes *	461,970	195,638
Customer receivables	4,327,544	2,331,352
Total accounts and notes receivable, net	$ 7,810,688	$ 2,704,817

* The Company has recorded a corresponding liability for interest payable to participating lenders in the amounts of $384,046 and $376,966 in 2001 and 2000 respectively.

Loan participation represents the transfer of notes receivable, by sale, to "participating" banks and finance companies. The Company receives consideration from the participating entities. In accordance with SFAS 140—or SFAS 125 if prior to March 31, 2001–*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, these transfers are accounted for as sales. The transferred assets (i.e. notes receivable) are isolated from the Company. The participating companies obtain the right—free of conditions that constrain it from taking advantage of that right—to pledge or exchange the notes receivable. In addition, the Company does not maintain control over the transferred assets and the transfer agreements do not entitle the Company or obligate the Company to repurchase or redeem the notes receivables before their maturity. Based on management's experience the carrying value for notes receivable approximates the fair value.

When the Company sells participations in notes receivable to investors, it retains servicing rights and interest income which are retained interests in the loan participations. Gain or loss on sales of the notes receivable depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

In all loan participation sales, the Company retains servicing responsibilities for which it typically receives annual servicing fees ranging from .25% to 1.375% of the outstanding balance. In those instances whereby annual service fees received by the Company are less than the cost of servicing, which is estimated at .25% of the outstanding balance, a servicing liability is recorded. Additionally, the Company often retains interest income. The Company's right to interest income is not subordinate to the investor's interests and the Company shares interest income with investors on a prorata basis. Although not subordinate to investor's interests, the Company's retained interest is subject to credit and prepayment risks on the transferred financial assets.

2. Notes Receivable (cont.)

During the year ended December 31, 2001, the Company sold $21,355,326 (111) loan participations for which servicing rights and interest receivable was retained. Corresponding pre-tax gains of $507,670 were recorded in 2001. Most of the loans sold prior to 2001 were sold with servicing margins equal to estimated servicing costs. However, during the year ended December 31, 2000, the Company had sold loans totaling $2,407,558 with servicing margins not equal to estimated servicing costs resulting in a net gain of $10,756. A gain was not recorded because management considered this amount as immaterial to overall income for 2000.

Subsequent to the initial recording at fair value, the servicing asset is amortized in proportion to and over the period of estimated net servicing income. Additionally, impairment of the servicing asset is subsequently evaluated and measured. Subsequent to the initial recording at fair value, interest only receivables are measured as debt securities classified as available for sale.

Of the agency loans at December 31, 2001 and 2000, $10,123,323 and $925,508, respectively, are sold to various participating lenders with recourse to Brooke Credit Corporation. Such recourse is limited to the amount of actual principal and interest loss incurred and any such loss is not due for payment to the participating lender until such time as all collateral is liquidated, all actions against the borrower are completed and all liquidation proceeds applied. However, participating lenders may be entitled to periodic advances from Brooke Credit Corporation against liquidation proceeds in the amount of regular loan payments. Brooke Credit Corporation is not obligated, under any circumstances, to repurchase any loans sold to participating lenders prior to maturity or final resolution. All such recourse loans: a) have no balances more than 60 days past due; b) have adequate collateral; c) and are not in default.

The expense provision associated with the Company's recourse obligation is based on the estimated fair value of the obligation. During the year ended December 31, 2001, the Company sold $10,993,521 of loan participations for which the Company provided recourse. Losses from recourse liabilities of $169,422 were recorded based on a present value calculation of future cash flows of the underlying loans. No such losses were recorded in prior years.

To obtain fair values of retained interests and recourse obligations, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company typically estimates fair value based on the present value of future expected cash flows estimated using management's best estimates of key assumptions—credit losses, prepayments speeds and discount rates commensurate with the risks involved.

The predominant risk characteristics of the underlying loans of the Company's servicing assets have been analyzed by management to identify how to stratify servicing assets for the purpose of evaluating and measuring impairment. The underlying loans are very similar in virtually all respects, however management has concluded that those underlying loans with adjustable interest rates should be evaluated separately from loans with fixed interest rates. Accordingly, different key economic assumptions would be used when determining the fair value of fixed rate loans than have been used for adjustable rate loans. However, the total amount of underlying loans that are fixed rate is not material so no evaluation of fair value has been made for the fixed rate loan stratum. As such, all underlying loans are part of the same stratum and have been evaluated using the key economic assumptions identified for adjustable rate loans. No valuation allowance has been established because the fair value for the adjustable rate loan stratum is not less than the carrying amount of the servicing assets.

2. Notes Receivable (cont.)

Although substantially all of the Company's loans are adjustable, a discount rate has been applied to reflect the net present value of future revenue streams. As such, changes in the net present value rate, or discount rate, resulting from interest rate variations, would adversely affect the asset's fair value.

The fair value of the interest-only strip receivable is calculated by estimating the net present value of interest income on loans sold using the discount rate and prepayment speeds noted in the following table:
The fair value of the interest-only strip receivable is reduced by the amount of estimated credit losses, which are calculated using the estimated credit loss percentage noted in the following table. On December 31, 2001, the fair value of the interest-only strip receivable recorded by the Company was $184,412. The Company has classified the interest-only receivable asset as available for sale.

The fair value of the "Servicing Asset" (or liability) is calculated by estimating the net present value of net servicing income (or expense) on loans sold using the discount rate and prepayment speeds noted in the following table. On December 31, 2001, the fair value of the servicing asset recorded by the Company was $293,276.

Key economic assumptions used in measuring the retained interests and recourse obligations at the date of loan participation sales completed during the year were as follows (rates per annum):

	2001 Agency Loans (Adjustable)*	2001 Agency Loans (Fixed-Rate)
Prepayment speed	10%	10%
Weighted average life (months)	100.68	N/A
Expected credit losses	5%	5%
Discount rate	8.5%	11.00%

*Rates for these loans are adjusted based on an index (for most loans, the New York prime rate plus 3.50%). Contract terms vary but, for most loans, the rate is adjusted annually on December 31st.

2. Notes Receivable (cont.)

At December 31, 2001, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions are as follows:

	Agency Loans (Adjustable)	Agency Loans (Fixed)
Prepayment speed assumption (annual rate)	10%	N/A
Impact on fair value of 10% adverse change	$(11,269)	N/A
Impact on fair value of 20% adverse change	$(22,053)	N/A
Expected credit losses (annual rate)	5%	N/A
Impact on fair value of 10% adverse change	$(10,940)	N/A
Impact on fair value of 20% adverse change	$(21,880)	N/A
Discount rate (annual)	8.5%	N/A
Impact on fair value of 10% adverse change	$(9,937)	N/A
Impact on fair value of 20% adverse change	$(19,491)	N/A

These sensitivities are hypothetical and should be used with caution. The effect of a variation in a particular assumption on the fair value of the servicing asset and recourse liability is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. The numbers used above are actual dollar amounts and not listed in the thousands.

The above adverse changes are calculated on the Company's retained interests in loans sold to participating lenders totaling $34,922,295 and excludes unsold loans totaling $3,021,174. The above adverse changes for expected credit losses are calculated on the Company's retained interests in loans sold with recourse to participating lenders totaling $10,123,323 and excludes unsold and non-recourse loans totaling $27,820,146.

THE FOLLOWING ILLUSTRATE HOW THE CHANGES IN FAIR VALUES WERE CALCULATED FOR 10% AND 20% ADVERSE CHANGES IN KEY ECONOMIC ASSUMPTIONS (PREPAYMENT SPEED OF 10%, CREDIT LOSS RATE OF 5% AND DISCOUNT RATE OF 8.5%).

10% Adverse Change in Prepayment Speed on Retained Servicing Interest:

Estimated cash flows from loan servicing fees @ 11% prepay speed	$ 592,519
Servicing expense @ 11% prepay speed	(195,419)
Discount of estimated cash flows to present value @ 8.5% discount rate	(110,791)
Carrying value of retained servicing interest in loan participations (adverse)	286,309
Carrying value of retained servicing interest in loan participations (normal)	(293,276)
Decrease of carrying value due to adverse change	($ 6,967)

2. Notes Receivable (cont.)

20% Adverse Change in Prepayment Speed on Retained Servicing Interest

Estimated cash flows from loan servicing fees @ 12% prepay speed	$ 572,704
Servicing expense @ 12% prepay speed	(188,828)
Discount of estimated cash flows to present value @ 8.5% discount rate	(104,235)
Carrying value of retained servicing interest in loan participations (adverse)	279,641
Carrying value of retained servicing interest in loan participations (normal)	(293,276)
Decrease of carrying value due to adverse change	$ (13,635)

10% Adverse Change in Prepayment Speed on Retained Interest (strip receivable):

Estimated cash flows from interest income @ 11% prepay speed	$ 421,447
Estimated credit loss on recourse loans @ 5% credit loss/11% prepay speed	(199,399)
Discount of estimated cash flows to present value @ 8.5% discount rate	(41,938)
Carrying value of retained interest in loan participations (adverse)	180,110
Carrying value of retained interest in loan participations (normal)	(184,412)
Decrease of carrying value due to adverse change	$ (4,302)

20% Adverse Change in Prepayment Speed on Retained Interest (strip receivable):

Estimated cash flows from interest income @ 12% prepay speed	$ 407,023
Estimated credit loss on recourse loans @ 5% credit loss/12% prepay speed	(192,593)
Discount of estimated cash flows to present value @ 8.5% discount rate	(38,436)
Carrying value of retained interest in loan participations (adverse)	175,994
Carrying value of retained interest in loan participations (normal)	(184,412)
Decrease of carrying value due to adverse change	(8,418)

10% Adverse Change in Credit Loss Rate on Retained Interest (strip receivable):

Estimated cash flows from interest income @ 10% prepay speed	$ 436,375
Estimated credit loss on recourse loans @ 5.5% credit loss/10% prepay sp	(223,289)
Discount of estimated cash flows to present value @ 8.5% discount rate	(39,614)
Carrying value of retained interest in loan participations (adverse)	173,472
Carrying value of retained interest in loan participations (normal)	(184,412)
Decrease of carrying value due to adverse change	($ 10,940)

2. Notes Receivable (cont.)

20% Adverse Change in Credit Loss Rate on Retained Interest (strip receivable):

Estimated cash flows from interest income @ 10% prepay speed	$ 436,375
Estimated credit losses on recourse loans @ 6% credit loss /10% prepay sp	(240,019)
Discount of estimated cash flows to present value @ 8.5% discount rate	(33,824)
Carrying value of retained interest in loan participations (adverse)	162,532
Carrying value of retained interest in loan participations (normal)	(184,412)
Decrease of carrying value due to adverse change	($ 21,880)

10% Adverse Change in Discount Rate on Retained Servicing Interest:

Estimated cash flows from loan servicing fees @ 10% prepay speed	$ 607,636
Servicing expense @ 10% prepay speed	(202,569)
Discount of estimated cash flows to present value @ 9.35% discount rate	(117,892)
Carrying value of retained servicing interest in loan participations (adverse)	287,175
Carrying value of retained servicing interest in loan participations (normal)	(293,276)
Decrease of carrying value due to adverse change	($ 6,101)

20% Adverse Change in Discount Rate on Retained Servicing Interest:

Estimated cash flows from loan servicing fees @ 10% prepay speed	$ 607,636
Servicing expense at 10% prepay speed	(202,569)
Discount of estimated cash flows to present value @ 10.2% discount rate	(123,757)
Carrying value of retained servicing interest in loan participations (adverse)	281,310
Carrying value of retained servicing interest in loan participations (normal)	(293,276)
Decrease of carrying value due to adverse change	($ 11,966)

10% Adverse Change in Discount Rate on Retained Interest (strip receivable):

Estimated cash flows from interest income @ 10% prepay speed	$ 436,375
Estimated credit losses on recourse loans @ 5% loss rate	(205,878)
Discount of estimated cash flows to present value @ 9.35% discount rate	(49,921)
Carrying value of retained interest in loan participations (adverse)	180,576
Carrying value of retained interest in loan participations (normal)	(184,412)
Decrease of carrying value due to adverse change	($ 3,836)

2. Notes Receivable (cont.)

20% Adverse Change in Discount Rate on Retained Interest (strip receivable):

Estimated cash flows from interest income @ 10% prepay speed	$ 436,375
Estimated credit losses on recourse loans @ 5% loss rate	(205,878)
Discount of estimated cash flows to present value @ 10.2% discount rate	(53,610)
Carrying value of retained interest in loan participations (adverse)	176,887
Carrying value of retained interest in loan participations (normal)	(184,412)
Decrease of carrying value due to adverse change	($7,525)

The following is an illustration of disclosure of expected static pool credit losses for loan participations sold with recourse to the Company. "Static pool credit loss" is an analytical tool that matches credit losses with the corresponding loans so that loan growth does not distort or minimize actual loss rates. The Company discloses static pool loss rates by measuring credit losses for loans originated in each of the last three years.

	Agency Recourse Loans Sold in		
	1999	2000	2001
December 31, 2001	0	0	0
December 31, 2000	0	0	
December 31, 1999	0		

2. Notes Receivable (cont.)

The following table presents quantitative information about delinquencies, net credit losses and components of loan participations sold with recourse.

	Total Principal Amount of Loans		Principal Amounts 60 or More Days Past Due*		Net Credit Losses***	
	2001	2000	2001	2000	2001	2000
Participations Sold with Recourse	$10,123,323	$925,508	$0	$0	$0	$0
Portfolio Loans	$3,021,174	$177,827	$0	$0	$0	$0
Total Loans Managed**	$13,144,497	$1,103,355	$0	$0	$0	$0

*Loans 60 days or more past due are based on end of period total loans.
** Owned and participated loans in which the Company has a risk of loss.
*** Net credit losses are charge-offs and are based on total loans outstanding.
****Represents the principal amount of the loan. Interest receivable and servicing rights held for participation loans are excluded from this table because they are recognized separately.

As an employment incentive, Brooke Credit Corporation has loaned money to certain employees for the purpose of acquiring the Company's common stock. Of the consumer loans at December 31, 2001 and 2000, $198,862 and $169,663, respectively, have been made to employees for this purpose. With the exception of loan balances totaling $8,193, all such loans have been sold to unaffiliated third parties without recourse. As such, $8,193 has been deducted from the Company's equity on December 31, 2001, but no reserve for losses was established because this loan was subsequently sold to an unaffiliated third party without recourse.

3. Property and Equipment

A summary of property and equipment and depreciation is as follows:

	2001	2000
Furniture and fixtures	$ 279,649	$ 299,101
Office and computer equipment	1,516,168	1,435,309
Automobiles	606,284	532,685
	2,402,101	2,267,095
Less: Accumulated depreciation	(1,752,325)	(1,565,446)
Property and equipment, net	$ 649,776	$ 701,649
Depreciation expense	$ 241,167	$ 285,609

4. Bank Loans, Notes Payable, and Other Long-Term Obligations

	2001	2000
First National Bank & Trust, Phillipsburg, KS, line of credit, $960,000 available, $0 not utilized. Due January 2003. Interest rate is 10.50%. Collateralized by account receivable.	$ 960,000	$ 660,000
Farmers State Bank, Phillipsburg, KS, due December 2006. Interest rate is 10.75%, payable $15,500 monthly. Collateralized by stock, inventory, fixed assets and personal guaranty of certain officers of Brooke Corporation.	-	857,748
State Bank of Colwich, Colwich, KS, due August 2004. Interest rate is 11.75%, payable $1,435 monthly. Collateralized by insurance agency assets.	38,016	49,995
Chrysler Financial, Overland Park, KS, due February 2000 to December 2003. Interest rates are 7.80% to 8.65%, payable monthly. Collateralized by automobiles.	183,268	131,000
Colonial Pacific, Portland, OR, due December 2001. Interest rate is 14.811% payable $2,083 monthly. Collateralized by personal guaranty of certain officers of Brooke Corporation.	-	22,912
Brooke Investments, Inc., Phillipsburg, KS, due February 2007. Interest rate is 10.00%, payable $1,718 monthly. Note is sold to participating bank. Collateralized by certain agency assets acquired by Brooke Investments, Inc.	82,757	94,453
David Patterson, Sr., Phoenix, AZ, due March 2008. Interest rate is 0%, payable $1,112 monthly. Unsecured deferred compensation agreement provided by The American Agency, Inc.	-	13,344
Robert B. Patterson, Overland Park, KS, due February 2001. Interest rate is 7.75%, principal balance plus accrued interest payable annually. Collateralized by 500 shares of American Agency, Inc. common stock and the guaranty of certain officers of Brooke Corporation.	-	222,222
Hartley Agency, Inc., Baxter Springs, KS, due June 2001. Interest rate is 0%, entire balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	-	201,564
Premier Insurance Agency, Poplar Bluff, MO. Interest rate is 5.00%, balance due January 2002. Collateralized by certain agency assets acquired by Brooke Corporation.	518,082	639,737
Stewart Insurance, Monroe, LA, due August 2001. Interest rate is 0%, entire balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	-	252,245
APB Insurers, Crane, MO, due July 2001. Interest rate is 0%, entire balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	-	77,445
Roppolo Insurance, Shreveport, LA, due July 2001. Interest rate is 0%, entire balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	-	115,289

4. Bank Loans, Notes Payable, and Other Long-Term Obligations (cont.)

	2001	2000
Mesa Insurance Agency, Pueblo, CO, due February 2001. Interest rate is 0%, entire balance is due at maturity. Collaterized by certain agency assets acquired by Brooke Corporation.	$ -	$ 100,000
James Mitchell Brown, Lampasas, TX, due February 2001. Interest rate is 8%, entire balance due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	-	80,000
Dawn Insurance Agency, Inc. Strasburg, CO, due May 2003. Interest rate is 0%, payable $43,322 annually. Collateralized by certain agency assets acquired by Brooke Corporation.	86,644	-
Lalumondier Insurance, Inc., Kearney, MO, due September 1, 2004. Interest rate is 5%, annual installments of $68,219 thereafter. Collateralized by certain agency assets acquired by Brooke Corporation.	204,656	-
Anderson Insurance Agency, Inc, Ballwin, MO, due May 2002. Interest rate is 7.5%, entire balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	163,300	-
Phares and Lites Agency, Inc., Many, LA, due June 2002. Interest rate is 0%, entire balance is due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	207,825	-
Bond-Pyatt Insurance Agency, Inc., St. Louis, MO, due August 2006. Interest rate at prime rate, first installment of $89,465 due January 2002, and annual installments of $89,465 thereafter. Collateralized by certain agency assets acquired by Brooke Corporation.	536,791	-
Della Bell Agency, Fowler, CO, March 2002. Interest rate is 0%, entire balance due at maturity. Collateralized by certain agency assets acquired by Brooke Corporation.	97,500	-
Mid Florida Insurance, Inc., Ocala, FL,. Interest rate is 0%, balance due January 2002. Collateralized by certain agency assets acquired by Brooke Corporation.	645,000	-
All Drivers Insurance Inc., Colorado Springs, CO, due September 2003. Interest rate is 5%, annual payments of $112,500. Collateralized by certain agency assets acquired by Brooke Corporation.	225,000	-
Gateway Realty of Columbus, Inc., Columbus, NE, due September 2010. Interest rate is 7%, annual principal payments of $67,345. Collateralized by certain agency assets acquired by Brooke Corporation.	606,109	-
Bruner Insurance Agency, Marianna, FL, due September 2004. Interest rate is 5%, balance due January 2002. Collateralized by certain agency assets acquired by Brooke Corporation.	280,701	-
JL Rucker Insurance, Shreveport, LA, due January 2, 2002. Interest rate is 0%. Collateralized by certain agency assets acquired by Brooke Corporation.	270,000	-
Gary Karch & Associates A-1 Insurance, Mt. Vernon, IL, due December 2002. Interest rate is 0%. Collaterized by certain agency assets acquired by Brooke Corporation.	67,500	-
Kohn-Senf Insurance Agency, Inc., St. Louis, MO, due December 2002. Interest rate is 5%, entire balance due at maturity. Collaterized by certain agency assets acquired by Brooke Corporation.	159,390	-
Sun Century Insurance Agency, Inc., Phoenix, AZ, due December 2003. Interest rate is 5%, annual principal payments of $67,333. Collaterized by certain agency assets acquired by Brooke Corporation.	134,667	-
W.J. of Florida, Inc., Tampa, FL, due December 2003. Interest rate is 0%, annual payments of $73,176. Collaterized by certain agency assets acquired by Brooke Corporation.	146,352	-

4. Bank Loans, Notes Payable, and Other Long-Term Obligations (cont.)

	2001	2000
Watson & Associates Insurance Services, Inc., Phoenix, AZ, due November 2004. Interest rate is 0%, annual payments of $57,167. Collaterized by certain agency assets acquired by Brooke Corporation.	171,500	-
Total bank loans and notes payable	5,785,058	3,517,954
Bonds payable (See Note 5)	5,780,000	1,980,000
Total bank loans, notes payable and other long-term obligations	11,565,058	5,497,954
Less: Current maturities and short-term debt	(4,166,123)	(2,161,190)
Total long–term debt	$7,398,935	$3,336,764

None of the bank loans, notes payable and other long term obligations contain covenants that: require the Company to maintain minimum financial ratios or net worth; restrict management's ability to pay dividends; restrict management's ability to buy or sell assets; restrict management's ability to incur additional debt; or contain any subjective acceleration clauses.

Interest incurred on bank loans, notes payable and other long-term obligations for the years ended December 31, 2001 and 2000 is $513,193 and $384,972, respectively. Short-term debt represents the non-cash investing transactions utilized to purchase agency assets.

Bank loans, notes payable and other long-term obligations mature as follows:

	Bank Loans & Notes Payable	Bonds Payable	Total
2002	$ 3,191,123	$ 975,000	$ 4,166,123
2003	1,624,531	365,000	1,989,531
2004	334,071	4,440,000	4,774,071
2005	178,278	-	178,278
2006	184,545	-	184,545
Thereafter	272,510	-	272,510
	$ 5,785,058	$ 5,780,000	$ 11,565,058

5. Long-Term Debt, Bonds Payable

Brooke Credit Corporation has offered bonds (series 1997A, 1997B and 1997C) for sale to institutional investors in $5,000 denominations. Brooke Credit Corporation has also offered bonds (series 1997D, 1998E, and 2000F) for sale to the public in $5,000 denominations. These bonds are issued in registered form with interest payable semi-annually on January 1st and July 1st of each year. These bonds are not callable by Brooke Credit Corporation and are not redeemable by the bondholder until maturity.

Brooke Credit Corporation covenants to use all bond proceeds for the purposes of funding loans or purchasing receivables. Brooke Credit Corporation has no debt and covenants not to incur obligations superior to its obligations to bondholders. Therefore, the obligation to bondholders is guaranteed by the assets and the equity of Brooke Credit Corporation.

At December 31, 2001 and 2000, the bonds payable consist of:

Bond Series	Rate	Maturity	2001 Principal Value	2000 Principal Value
1997A	10.000%	January 1, 2001	$ -	$ 165,000
1997B	10.250%	January 1, 2002	155,000	155,000
1997C	10.500%	January 1, 2003	365,000	245,000
1997D	10.125%	July 1, 2001	-	595,000
1998E	10.125%	January 1, 2002	820,000	820,000
2000F	9.125%	July 1, 2004	4,440,000	-
Total			$ 5,780,000	$ 1,980,000

Interest payable is $205,415 and $99,905 at December 31, 2001 and 2000, respectively.

6. Long-Term Debt, Capital Leases

The Company leases various equipment which may be purchased for a nominal amount at the expiration of the lease agreements. The Company is required to provide insurance coverage on the equipment as specified by the lessor. Under the criteria established by SFAS 13, these assets have been capitalized in the Company's financial statements. The capital lease obligations have all been paid in full. Property and equipment includes the following amounts reflecting the capitalization of these assets:

	2001	2000
Office and computer equipment	$ 415,483	$ 415,483
Less: Accumulated amortization	(407,311)	(386,605)
	$ 8,172	$ 28,878

Capital lease amortization is included in depreciation expense.

7. Income Taxes

The elements of income tax expense (benefit) are as follows:

	2001	2000
Current	$ 0	$ 0
Deferred	358,241	(251,032)
	$ 358,241	$(251,032)

The Company's net operating loss carryforwards are used to offset the current tax expense by decreasing the deferred tax asset.

Reconciliation of the U.S. federal statutory tax rate to Brooke Corporation's effective tax rate on pretax income, based on the dollar impact of this major component on the current income tax expense:

	2001	2000
U.S. federal statutory tax rate	34%	34%
State statutory tax rate	4%	4%
Effect of the utilization of net operating loss carryforwards	(3%)	(3%)
Miscellaneous	(1%)	(1%)
Effective tax rate	34%	34%

Reconciliation of deferred tax asset:

	2001	2000
Beginning balance, January 1	$ 854,066	$ 603,034
Deferred income tax (expense) benefit	(358,241)	251,032
Balance, December 31	$ 495,825	$854,066

Expiration dates of net operating loss carryforwards:

2010	$ 428,553	2019	$ 118,346
2018	285,174	2020	626,236

8. Employee Benefit Plans

The Company has a defined contribution retirement plan covering substantially all employees. Employees may contribute up to 15% of their compensation. The Company may contribute an additional amount to the plan at the discretion of the Board of Directors. No employer contributions were charged to expense for periods ended December 31, 2001 and 2000. During the year ended December 31, 2001 the Company approved a Compensatory Stock Option Plan for management employees. Benefits under the plan have not commenced as of December 31, 2001.

9. Concentration of Credit Risk

The Company maintains cash balances at several banks. On December 31, 2001 and 2000, the Company had account balances of $4,943,574 and $2,256,693, respectively, with one bank which exceeds the $100,000 insurance limit of the Federal Deposit Insurance Corporation.

10. Segment and Related Information

The Company's two reportable segments as of and for the years ended December 31, 2001 and 2000 consisted of its insurance agency business and its financial services business. The insurance agency business includes the Company's wholly-owned subsidiaries which are licensed insurance agencies operating in the states of Arizona, Colorado, Florida, Iowa, Illinois, Kansas, Louisiana, Missouri, Nebraska, Nevada, Oklahoma, Texas, and Utah. The Company sells insurance through its network of exclusive franchise agents, franchise sub-agents, non-exclusive brokers and insurance producers. The finance services business includes the Company's wholly-owned subsidiary, which is a licensed finance company. The Company originates loans to Brooke Corporation's franchise agents, franchise sub-agents, insurance producers and insurance policyholders. Unallocated corporate-level expenses are reported in the reconciliation of the segment totals to the related consolidated totals as "other corporate expenses". Management evaluates the performance of its segments and allocates resources to them based on the net income before income taxes. The segments' accounting policies are the same as those described in the summary of significant accounting policies.

The table below reflects summarized financial information concerning the Company's reportable segments for the years ended December 31, 2001 and 2000:

2001	Insurance Agency Business	Financial Services Business	Elimination of Intersegment Activity	Consolidated Totals
Insurance commissions	$ 20,895,232	$ -	$ -	$ 20,895,232
Interest income	(343,632)	578,302	(160,076)	74,594
Gain on sale of notes receivable	-	507,670	-	507,670
Interest expense	169,561	-	-	169,561
Commissions expense	16,220,082	-	-	16,220,082
Impairment loss	162,877	-	-	162,877
Depreciation and amortization	382,295	58,319	-	440,614
Segment assets	8,930,464	13,527,753	(5,001,306)	17,456,911
Expenditures for segment assets	232,790	-	-	232,790

10. Segment and Related Information (cont.)

2000	Insurance Agency Business	Financial Services Business	Elimination of Intersegment Activity	Consolidated Totals
Insurance commissions	$13,751,080	$ -	$ -	$13,751,080
Interest income	(184,241)	420,654	(131,464)	104,949
Interest expense	20,731	180,000	-	200,731
Commissions expense	9,489,111	-	-	9,489,111
Depreciation and amortization	405,735	-	-	405,735
Impairment loss	300,000	-	-	300,000
Segment assets	8,181,677	373,465	(1,040,000)	7,515,142
Expenditures for segment assets	404,147	-	-	404,147

Profit (Loss)	2001	2000
Insurance Agency profit	$ 3,616,785	$ 3,171,262
Financial Services profit	867,577	289,191
Total segment profit	$ 4,484,362	$ 3,460,453
Unallocated amounts:		
Finders fees	450,000	-
Buyer assistance plan fees	1,589,550	-
Loss on sale of fixed assets	(47,397)	-
Gain on sale of agencies	676,503	17,500
Other corporate expenses	(6,099,369)	(4,216,283)
Income (loss) before income taxes	$ 1,053,649	$ (738,330)

11. New Accounting Standard

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," (collectively referred to as the "Standards"), which are effective for the Company as of January 1, 2002, except as noted below. SFAS No. 141 supercedes APB No. 16, "Business Combinations." The provisions of SFAS No. 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) required that un-amortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS No. 141 also requires that, upon adoption of SFAS No. 142, the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS No. 142 supercedes APB No. 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS No. 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

The Company will adopt the provisions of SFAS No. 142 in its first quarter ended March 31, 2002. The Company is in the process of preparing for its adoption of SFAS No. 142 and is making the determinations as to its reporting units and the amounts of goodwill, intangible assets, other assets, and liabilities allocated to those reporting units. The Company is evaluating the useful lives assigned to its intangible assets and does not anticipate any material changes to such useful lives. However, the present value of acquired insurance contracts will be separately identified and amortized. SFAS No. 142 requires that goodwill be tested annually for impairment using a two-step process. The first step of the goodwill impairment test is to test for a potential impairment. The second step of the goodwill impairment test is to measure the amount of the impairment loss. The Company expects to complete steps one and two of the goodwill impairment test during the first quarter of 2002. The Company does not believe that the results of these impairment test steps will have a material impact on the Company's consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") which amends SFAS No. 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies". This statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The provisions of SFAS 143 are required to be applied starting with fiscal years beginning after June 15, 2002. Management continues to evaluate the impact that adoption of SFAS 143 will have on its consolidated financial statements.

11. New Accounting Standard (cont.)

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") which supersedes FASB No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS 144 also amends ARB No. 51 "Consolidated Financial Statements". The provisions of SFAS 144 are required to be applied starting with fiscal years beginning after December 15, 2001. Management continues to evaluate the impact that adoption of SFAS 144 will have on its consolidated financial statements.

12. Subsequent Events

Brooke Corporation entered into an agreement with Phillips County Kansas to issue Industrial Revenue Bonds for the purchase and renovation of a 22,000 square foot building in Phillipsburg, Kansas. This building will serve as the office for the processing center. The total amount of Industrial Revenue Bonds issued was $825,000 with $252,500, used to date, to purchase the building and start demolition with the remaining funds being held by the trustee (First National Bank of Phillipsburg). Construction is scheduled for completion by December 31, 2002.

Brooke Corporation continues to sell preferred stock to Kansas residents. Since December 31, 2001 an additional $1,229,671 of preferred stock has been sold.

Brooke Corporation has issued $585,000 in bonds since December 31, 2001. There has been $980,000 in bond maturities since December 31, 2001.

Brooke Corporation purchased a 1/3 interest in an airplane for a cost of $65,000.

Brooke Bancshares (a 100% subsidiary of Brooke Corporation) was formed January 23, 2002 for the purpose of purchasing a bank. Brooke Bancshares entered into an agreement on February 22, 2002 to purchase a Kansas bank subject to regulatory approval.

The Compensation Committee of the Board of Directors approved, in March 2002, the issuance of stock options to several management employees.

13. Related Party Information

Robert D. Orr, Leland G. Orr and Michael Hess own 100% of the voting stock of GI Agency, Inc. GI Agency, Inc. owns franchise agencies which purchase Master Agent services and obtain loans from the Company at the same general prices and general terms as provided to other unaffiliated franchise agents. As of December 31, 2001, the total outstanding balance of all loans made to GI Agency, Inc. by the Company's finance subsidiary, Brooke Credit Corporation, was $1,456,862. Amounts owed to the Company by GI Agency, Inc. are secured by hypothecation of all the shares of the Company's common stock owned by Brooke Holdings, Inc. which currently represents 73.8% of the total shares outstanding. All of the loans made to GI Agency, Inc., have been sold to an unaffiliated lender. Because of the relationships described above, certain conflicts of interest may arise between the Company and its agents in attempting to resolve disputes that occur as a result of such relationships.

13. **Related Party Information (cont.)**

On occasion, the Company has assigned all of its rights, title and interest in agreements to purchase insurance agencies to GI Agency, Inc., without consideration from GI Agency, Inc. In its role of matching agency buyers and sellers, the Company from time to time executes purchase agreements to acquire agency assets and assigns them to prospective or existing franchise agents. In the event that agency assets purchased by the Company are not sold to a prospective or existing franchise agent, the Company may assign it rights and obligations pursuant to such purchase agreement to GI Agency, Inc. Such assignments allow the Company to avoid retail competition with its franchise agents and positions GI Agency, Inc. to operate such agencies until a purchaser can be identified. From January 1, 2001 through December 31, 2001, GI Agency has collected commissions on the assets subject to such assignments in the amount of $141,226.

On May 31, 2001, GI Agency, Inc. sold the assets associated with its Grand Island, Nebraska operations to a third party unaffiliated with the Company's management. On August 1, 2001, GI Agency, Inc. sold the assets associated with its agency in Ogallala, Nebraska to a third party unaffiliated with the Company's management.

Until May 31, 2001, the Company shared office facilities with GI Agency, Inc. at its Grand Island, Nebraska office location. Brooke Investments, Inc., a wholly-owned subsidiary of the Company, leased the Grand Island property from an unaffiliated lessor. The Company reimbursed Brooke Investments, Inc. for payments made in connection with the lease and GI Agency, Inc. reimbursed the Company for its use of the facilities up through May 31, 2001. From January 1, 2001 through December 31, 2001, GI Agency, Inc. reimbursed the Company $148,484 for personnel expenses and $2,550 for office facilities expenses. Although expenses are allocated between the Company and GI Agency, Inc., the expense allocation has not been independently evaluated to determine fairness.

Robert D. Orr, Leland G. Orr and Michael Hess have, in some cases, each guaranteed amounts due suppliers under certain agency agreements. The amounts guaranteed under such agency agreements varies depending on the value of premiums to be collected under such agency agreements. The continuance of these guarantees is important to the Company's prospects.

The Company has extended a $400,000 line of credit loan to Brooke Holdings, Inc. which owns 73.8% of the Company's common stock. This line of credit is unsecured and was renewed on December 31, 2001 bearing interest at a rate of 9.5% per annum and maturing on December 31, 2002. The outstanding balance on the line of credit as of December 31, 2001 was $384,689.

Robert Orr, Leland Orr, Michael Hess, and Shawn Lowry have each guaranteed the promissory note of Austin Agency, Inc., of Brownsville, Texas, to Brooke Credit Corporation. The four guarantors have taken assignment in stock of Austin Agency, Inc. as consideration for their guarantees. The loan to Austin Agency, Inc. was executed on May 15, 2000 for $1,200,000 and is scheduled to mature on August 1, 2010. As of December 31, 2001 the principal balance of the loan was $1,125,507.

13. Related Party Information (cont.)

Shawn Lowry is the sole manager of First Financial Insurance Group, L.L.C. , a Kansas limited liability company. Michael Lowry is the sole member of First Financial. The business purpose of First Financial includes investing in agencies and guaranteeing loans made by Brooke Credit Corporation to franchise agents who have bought agencies from the Company. On June 1, 2001, First Financial Group, L.C., guaranteed 65% of the Brooke Credit Corporation loan to Palmer, L.L.C. of Baxter Springs, Kansas. In consideration for this guaranty, First Financial Group, L.C. received a 15% profit interest in Palmer, L.L.C. The loan was executed on June 1, 2001 for $799,519 and is scheduled to mature on September 1, 2011. As of December 31, 2001 , the principal balance of the loan was $789,331. On September 28, 2001, First Financial guaranteed 25% of the outstanding principal balance of two Brooke Credit Corporation loans to R&F, L.L.C. of Kansas City, Missouri. Both loans were executed on September 28, 2001 in the amount of $102,918 and $545,791, respectively, and both mature on December 1, 2013. As of December 31 , 2001 the balance on these loans was $102,918 and $545,791, respectively. In consideration for these guarantees, First Financial Group received 5% profits interest in R&F, L.L.C. On October 15, 2001 First Financial guaranteed 50% of the outstanding principal balance of The Wallace Agency, L.L.C. of Wanette, Oklahoma. This loan was executed on October 15, 2001 in the amount of $440,656 and is to mature on January 1, 2014. As of December 31 , 2001 the balance on this loan was $440,656. In consideration of this guarantee, First Financial Group receives a 7.5% profits interest in The Wallace Agency.

On February 7, 2001 Mr. Lowry borrowed $28,000 from Brooke Credit Corporation bearing interest at a rate adjusted annually and equal to 3.5% per annum over the New York prime rate, which as of the last date of determination was 12%. This loan was scheduled to mature on February 15, 2006 but was paid off by Mr. Lowry on March 28, 2002, On September 17, 2001 Mr. Lowry borrowed $12,000 from Brooke Credit Corporation bearing interest at 10% with a scheduled maturity date of December 31, 2001. On October 1, 2001 Mr. Lowry borrowed $2,500 from Brooke Credit Corporation bearing interest at 10% with a maturity date of December 31, 2001. On October 31, 2001 Mr. Lowry borrowed $79,283 from Brooke Credit Corporation bearing interest at 3.5% per annum over the New York prime rate with a maturity date of November 1, 2011. The purpose of the loans was to allow Mr. Lowry to purchase stock of the Company and finance the operations of First Financial Group, L.L.C. Mr. Lowry paid off these loans on March 28, 2002.

Michael Lowry has one loan outstanding from Brooke Credit Corporation. On October 31, 2001 Mr. Lowry borrowed $48,597 from Brooke Credit Corporation bearing interest at 3.5% per annum over the New York prime rate with a scheduled maturity date of October 31, 2011. The purpose of the loan was to allow Mr. Lowry to refinance his loan to purchase stock of the Company. This loan has been sold to an unaffiliated lender.

13. **Related Party Information (cont.)**

Kyle Garst is the sole manager and sole member of American Financial Services, L.L.C., a Kansas limited liability company. The business purpose of American Financial Services, L.C., includes investing in agencies and guaranteeing loans made by Brooke Credit Corporation to franchise agents who have bought agencies from the Company. On October 15, 2001 American Financial guaranteed 50% of the outstanding principle balance of The Wallace Agency, L.L.C. of Wanette, Oklahoma. This loan was executed on October 15, 2001 in the amount of $440,656 and is to mature on January 1, 2014. In consideration of this guarantee, First Financial Group receives a 5% profit interest in The Wallace Agency. As of December 31, 2001 the balance on this loan was $440,656.

Mr. Garst has one loan with Brooke Credit Corporation in the amount of $9,824 bearing interest at 10.00%. This loan was executed on December 14, 2001 and is scheduled to mature on December 14, 2002. The outstanding principal balance as of December 31, 2001 was $9,824. The purpose of the loan was to fund business operations of American Financial Services, L.L.C.

Anita Larson is married to John Arensberg, a partner in Arensberg Insurance of Lawrence, Kansas and Overland Park, Kansas. The Company and Arensberg Insurance have entered into a franchise agreement pursuant to which Arensberg Insurance participates in the Company's Master Agent program. In addition, the Company's finance subsidiary, Brooke Credit Corporation, has made three loans to Arensberg Insurance. As of December 31, 2001, the total outstanding balance of such loans was $787,682. Each of the loans bears interest at a rate adjusted annually and equal to 3.0% per annum over the New York prime rate, which as of December 31, 2001 was 11.5% for each loan. One of the loans is scheduled to mature on October 1, 2008 and the remaining two loans are both scheduled to mature on July 1, 2009. All of the loans made to Arensberg Insurance have been sold to an unaffiliated lender.

Ms. Larson borrowed $30,000 from Brooke Credit Corporation. The loan bears interest at a rate adjusted annually and equal to 2.5% per annum over the New York prime rate, which as of December 31, 2001 was 12%. The loan is scheduled to mature on August 1, 2005. The outstanding balance of this loan as of December 31, 2001 was $27,555. The purpose of the loan was to allow Ms. Larson to purchase stock of the Company.

Anita Lowry is a sister to Robert D. Orr and Leland G. Orr and the mother of Shawn Lowry and Michael Lowry and is married to Don Lowry who is a franchisee. Don & Anita Lowry are shareholders of American Heritage Agency, Inc. which owns an agency in Hays, Kansas and previously owned an agency in Great Bend, Kansas. The Company and American Heritage Agency, Inc. entered into a franchise agreement on February 28, 1999 pursuant to which American Heritage Agency, Inc. participates in the Company's Master Agent program. As of December 31, 2001, American Heritage had three loans outstanding to Brooke Credit Corporation with total outstanding balances of $1,399,070. Since December 31, 2001, American Heritage has sold assets and reduced its outstanding loan balances to $339,359 of which all but $66,497 have been sold to unaffiliated lenders. The outstanding loans to American Heritage currently have individual balances of $272,862, $1,208 and $65,289 with respective maturity dates of September 1, 2010, May 1, 2002 and February 1, 2014. All of the loans bear interest at a rate adjusted annually to 3.5% over the New York prime rate.

13. Related Party Information (cont.)

Alexine Paden is the mother of Robert D. Orr and Leland G. Orr and is married to Don Paden, Logan, Kansas. Don & Alexine Paden have purchased $40,000 of Brooke Credit Corporation's bonds which are outstanding at December 31, 2001.

Phyllis Koster is the mother of Michael Hess and is married to Henry Koster, Cawker City, Kansas. Henry Koster has purchased $100,000 of Brooke Credit Corporation's bonds which are outstanding at December 31, 2001.

Wanda Schmidt is the mother-in-law of Robert D. Orr and has purchased a loan participation from Brooke Credit Corporation through her Individual Retirement Account in the amount of $3,289.

Lori Hess is the wife of Michael Hess and has purchased a loan participation from Brooke Credit Corporation through her Individual Retirement Account in the amount of $103,299.

Robert D. Orr has purchased a loan participation from Brooke Credit Corporation through his Individual Retirement Account in the amount of $115,911.

The fair value of Robert Orr's services was estimated at $40,000, or (one half) of the compensation of the Company's most senior managers (Leland Orr and Mike Hess). This value was established after analysis of the time Mr. Orr spent on Company activities and not necessarily the amount of contribution made by Robert Orr, the importance of Robert Orr's contributions, or the Company's dependence on Robert Orr. Mr. Orr is an author and is currently working on a revised addition of his previous reference book. Additionally, Mr. Orr maintains a secondary residence in Boulder, CO and is absent from the company's offices on a frequent basis.

The Company's employee handbook contains conflicts of interest guidelines which are applicable to Company management and employees. The purpose of the guidelines is to prevent an employee in a position to influence a decision regarding the Company to use such influence for personal gain. Pursuant to the guidelines, an employee in such a position is required to notify an officer of the Company of the existence of such a situation.

14. Contingency

The Company is filing voluntarily with the SEC (Securities and Exchange Commission). The Company has not received official notice of clearing comments, therefore, it is possible future SEC comments could have an affect on this audit report.

15. Acquisitions and Divestitures

On June 30, 2000, the Company acquired 900 shares of Interstate Insurance Group, LTD from Gerald Lanio and William Tyer. These shares represented 100% of the shares outstanding. The total purchase price was estimated to be $1,200,000 plus Interstate's net tangible book value however that portion of the purchase price exceeding net tangible book value was contingent upon future revenues. Therefore, in accordance with paragraph 80 of APB 16, the purchase price was recorded as an asset when cash payments were made to the sellers. Cash payments of $300,000 and $162,877 were recorded as Excess Cost of Purchased Subsidiary in 2000 and 2001 respectively and no liability to Lanio and Tyer was recorded for the difference between the

15. Acquisitions and Divestitures (cont.)

cash payments and the original estimated purchase price of $1,200,000. As disclosed in footnote 1(g) to these financial statements, these amounts were subsequently written off as impaired.

16. Supplemental Cash Flow Disclosures

Supplemental disclosures:		
Cash paid for interest	$ 513,232	$ 384,972
Cash paid for income tax	$ -	$ -
Non cash financing activity - additional paid in capital for contributed services	$ 40,000	$ 40,000

During the twelve month period ending December 31, 2001, the statement of cash flows reflect the purchase of agencies into inventory totaling $3,040,293 and the sale of agencies from inventory totaling $6,546,571. Despite an increase of $550,800 in agency inventory as recorded on the December 31, 2001 balance sheet, net cash of $3,506,278 was provided by the Company's agency inventory activities because $4,057,078 of the purchase price of agency inventory was provided by sellers per table below.

	December 31, 2001
Purchase of insurance agency inventory	$ (3,040,293)
Sale of insurance agency inventory	$ 6,546,571
Net cash provided (used) from sale of agency inventory	$ 3,506,278
Cash (provided) by sellers of agency inventory	$ (4,057,078)
(Increase) in inventory on balance sheet	$ (550,800)

17. Prior Period Adjustment

The Company has recorded prior period adjustments for the correction of errors. Specifically the Company has revised the initial purchase price allocation, for the Interstate subsidiary, to delete the contingent consideration.

The Company has reclassified, on the Balance Sheets, the loan interest receivable as a component of the corresponding notes receivable balance.

The Company has revised the Statement of Cash Flows to reflect the actual cash receipts and payments in connection with the purchase and sale of insurance agencies, by excluding any liabilities assumed or transferred in the transactions.

The Company has deleted, on the Statements of Income, the "participating interest expense" line item, because the income should not report interest income on loans that the Company does not own.

17. Prior Period Adjustment (cont.)

The Company has reclassified, on the Statements of Income, the "Gains on sale of notes receivable" and "Impairment loss" line items, in order, to be included in the appropriate operating income and expense subtotals.

The Company has reclassified, on the Statements of Income, the corresponding interest expense on un-sold agency loans for which interest income amounts are included in operating income. The cost of financing is an integral part of the Company's lending operation and are classified in a manner consistent with the corresponding revenue.

The Company has reclassified, on the cash flow statement, the category "Net (increase) decrease in notes receivable" from the cash used in investing activity to the net cash used in operating activity. This reclassification adjustment is required because these loans are originated specifically for resale.

The Company has adjusted the deferred tax asset, income tax expense and income tax benefit for the tax effect of the prior period adjustment.

The effect of the prior period adjustment is recapped below:

	12/31/2001 Retained Earnings	12/31/2000 Retained Earnings	12/31/2001 Net Income	12/31/2000 Net Income
As previously reported	$ (2,414,635)	$ (3,046,773)	$ 864,866	$ (1,081,298)
Elimination of contingent liability with acquisition of subsidiary	643,246	900,000	(256,754)	900,000
Prior period adjustments affect for deferred tax assets	(218,704)	(306,000)	87,296	(306,000)
As adjusted	$ (1,990,093)	$ (2,452,773)	$ 695,408	$ (487,298)

	12/31/2001 Earnings Per Share	12/31/2000 Earnings Per Share	12/31/2001 Dilut. Earn Per Share	12/31/2000 Dilut Earn Per Share
As previously reported	$1.15	$(1.57)	$1.11	$(1.54)
Elimination of contingent liability with acquisition of subsidiary	(0.37)	1.30	(0.33)	1.28
Prior period adjustments affect for deferred tax assets	0.13	(0.44)	0.12	(0.43)
As adjusted	$ 0.91	$(0.71)	$0.90	$(0.69)

18. Prior Period Adjustment

The Company has revised the initial purchase price allocation, for the Interstate subsidiary, to delete the contingent consideration. As recapped below, the elimination of the contingent consideration would have the following affect on the prior reported quarterly financial information:

	03/31/2001 Retained Earnings	06/30/2001 Retained Earnings	09/30/2001 Retained Earnings	03/31/2001 Net Income	06/30/2001 Net Income	09/30/2001 Net Income
As previously reported	$ (2,596,023)	$(2,414,194)	$ (2,249,100)	$ 493,659	$ 724,738	$ 949,702
Elimination of contingent liability with acquisition of subsidiary	900,000	900,000	643,246	-		(256,754)
Prior period adjustments affect for deferred tax assets	(306,000)	(306,000)	(218,704)	-	-	87,296
As adjusted	$ (2,002,023)	$(1,820,194)	$ (1,824,558)	$493,659	$ 724,738	$ 780,244

	03/31/2001 Earnings Per Share	06/30/2001 Earnings Per Share	09/30/2001 Earnings Per Share	03/31/2001 Dilut. Earn Per Share	06/30/2001 Dilut. Earn Per Share	09/30/2001 Dilut. Earn Per Share
As previously reported	$ 0.71	$1.03	$1.33	$0.70	$1.01	$1.27
Elimination of contingent liability with acquisition of subsidiary	-	-	(0.34)	-	-	(0.30)
Prior period adjustments affect for deferred tax assets	-	-	0.12	-	-	0.10
As adjusted	$ 0.71	$ 1.03	$1.10	$0.70	$1.01	$1.07