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AMERICAN NATIONAL FINANCIAL INC

Form 10-Q

August 09, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 2001

Commission File Number 0-24961

AMERICAN NATIONAL FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

California

33-0731548

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

1111 E. Katella Avenue, Suite 220, Orange, California

92867

(Address of principal executive offices)

(Zip Code)

(714) 289-4300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES (X) NO ()

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common stock, no par value, 7,079,415 shares as of August 1, 2001

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FORM 10-Q

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QUARTERLY REPORT

Quarter Ended June 30, 2001

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SIGNATURES

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

AMERICAN NATIONAL FINANCIAL, INC.

(Registrant)

By: /s/ Carl A. Strunk

Carl A. Strunk
Executive Vice President and Chief

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Financial Officer (Principal Financial
and Accounting Officer) and Director

Date: August 9, 2001

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Part I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

AMERICAN NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	JUNE 30, 2001 ----- (UNAUDITED)	DECEMBER 31, 2000 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,666	\$ 9,450
Short-term investments, at cost, which approximates fair market value	615	415
Accrued investment interest	145	145
Trade receivables, net of allowance for doubtful accounts of \$2,516 in 2001 and \$2,118 in 2000	4,321	3,925
Notes receivables, net	1,760	2,141
Deferred tax asset	2,960	3,182
Prepaid expenses and other current assets	963	819
	-----	-----
Total current assets	25,430	20,077
Investment securities available for sale, at fair market value	10,313	10,533
Property and equipment, net	7,787	7,502
Title plants	2,699	2,699
Deposits with the Insurance Commissioner	133	133
Intangibles, net of accumulated amortization of \$1,752 in 2001 and \$1,471 in 2000	12,115	12,397
	-----	-----
Total assets	\$ 58,477 =====	\$ 53,341 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 11,156	\$ 5,998
Customer advances	3,645	3,087
Current portion of long-term debt	560	555
Current portion of obligations under capital leases with affiliates	104	113
Current portion of obligations under capital leases with non-affiliates	140	135
Reserve for claim losses	2,493	2,431
Income tax payable	2,127	1,348
Due to affiliate	2,588	2,294

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Total current liabilities	22,813	15,961
Long-term debt	3,066	3,528
Obligations under capital leases with affiliates	774	823
Obligations under capital leases with non-affiliates	981	1,052
Total liabilities	27,634	21,364
Shareholders' equity:		
Preferred stock, no par value; authorized 5,000,000 shares; issued and outstanding, none	--	--
Common stock, no par value; authorized, 50,000,000 shares; issued and outstanding, 7,079,415 in 2001 and 8,168,678 in 2000	--	--
Additional paid in capital	27,025	22,744
Retained earnings	9,843	9,409
Accumulated other comprehensive income (loss)	202	(136)
Less treasury stock, 1,257,036 shares in 2001 and 15,257 shares in 2000, at cost	(6,227)	(40)
Total shareholders' equity	30,843	31,977
Total liabilities and shareholders' equity	\$ 58,477	\$ 53,341

See accompanying notes to condensed consolidated financial statements

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AMERICAN NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	(UNAUDITED)		(UNAUDITED)	
Revenues:				
Net title service revenue -- related party	\$20,017	\$11,247	\$34,774	\$20,017
Escrow fees	8,650	5,686	15,491	10,345
Other service charges	6,329	3,746	11,744	6,329
Investment income	289	237	1,575	1,575
Total revenues	35,285	20,916	63,584	38,266
Expenses:				
Personnel costs	18,846	12,705	34,733	24,705
Other operating expenses includes \$1,129 and \$965 with affiliate for the three-month periods ended June 30, 2001 and 2000, respectively, and \$2,064 and \$1,914 with affiliate for the six-month periods				

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ended June 30, 2001 and 2000, respectively	8,406	5,674	15,236	10
Title plant rent and maintenance	2,264	1,448	4,015	2
	-----	-----	-----	---
Total expenses	29,516	19,827	53,984	38
	=====	=====	=====	=====
Earnings before income taxes	5,769	1,089	9,600	
Income tax	2,365	446	3,936	
	-----	-----	-----	---
Net earnings	\$ 3,404	\$ 643	\$ 5,664	\$
	=====	=====	=====	=====
Basic earnings per share	\$ 0.44	\$ 0.08	\$ 0.71	\$
	=====	=====	=====	=====
Weighted average shares outstanding, basic basis	7,748	8,044	7,975	7
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.41	\$ 0.08	\$ 0.67	\$
	=====	=====	=====	=====
Weighted average shares outstanding, diluted basis ..	8,386	8,044	8,503	7
	=====	=====	=====	=====
Cash dividends per share, actual	\$ 0.10	\$ 0.20	\$ 0.20	\$
	=====	=====	=====	=====
Cash dividends per share after giving retroactive effect to 10% stock dividend	\$ 0.10	\$ 0.18	\$ 0.19	\$
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements

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AMERICAN NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
	(UNAUDITED)		(UNAUDITED)	
Net earnings	\$3,404	\$ 643	\$5,664	\$ 311
Other comprehensive income -				
Unrealized gain (loss) on investment, securities available for sale(1)	13	(189)	583	(182)
	-----	-----	-----	-----
Comprehensive earnings	\$3,417	\$ 454	\$6,247	\$ 129
	=====	=====	=====	=====

(1) Net of income tax expense (benefit) of \$7 and \$(114), and \$212 and \$(107) for the three-month and six-month periods ended June 30, 2001 and 2000, respectively.

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AMERICAN NATIONAL FINANCIAL, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (IN THOUSANDS, EXCEPT PER SHARE DATA)

	COMMON STOCK		TREASURY STOCK		ADDITIONAL	RETAINED
	SHARES	AMOUNT	SHARES	AMOUNT	PAID IN CAPITAL	EARNINGS
BALANCE, DECEMBER 31, 2000.....	8,183,931	\$ --	(15,257)	\$ (40)	\$22,744	\$9,409
Exercise of stock options, including associated tax benefit.....	84,663	--	--	--	294	--
Unrealized gain on investment securities available for sale.....	--	--	--	--	--	--
Stock dividends.....	--	--	--	--	3,769	(3,769)
Cash dividends (\$0.20 per share).....	--	--	--	--	--	(1,461)
Issuance of shares.....	83,115	--	--	--	218	--
Purchase of treasury shares...	--	--	(1,257,036)	(6,187)	--	--
Net earnings.....	--	--	--	--	--	5,664
BALANCE, JUNE 30, 2001.....	8,351,709	\$ --	(1,272,293)	\$ (6,227)	\$27,025	\$9,843

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AMERICAN NATIONAL FINANCIAL, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

SIX MONTHS ENDED
JUNE 30,

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	2001	2000
	-----	-----
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 5,664	\$ 311
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	1,356	1,242
Gain on sale of investments	(1,004)	(139)
Loss (Gain) on disposal of property and equipment	14	(9)
Changes in:		
Accounts receivables, net	(396)	(497)
Interest receivable	--	77
Prepaid expenses and other assets	26	(132)
Income taxes receivable and deferred income taxes	1,001	1,449
Accounts payable and other accrued expenses	5,158	(936)
Reserve for claim loss	62	20
Due to affiliates	294	599
Customer advances	558	806
	-----	-----
Total cash provided by operating activities ..	12,733	2,791
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,543)	(487)
Additions to notes receivable	(126)	(770)
Collections on notes receivable	507	24
Proceeds from sales of investment securities	1,562	5,437
Proceeds from short term investments	--	829
Additions to short-term investments	(200)	--
Acquisition of subsidiaries, net of cash received ..	--	(2,747)
	-----	-----
Total cash provided by investing activities ..	200	2,286
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	218	511
Payments on long-term debt	(457)	(477)
Payments of capital lease obligations	(124)	(94)
Dividends paid	(1,461)	(1,466)
Exercise of stock options	294	--
Repurchase of capital stock	(6,187)	--
	-----	-----
Total cash used in financing activities	(7,717)	(1,526)
	-----	-----
Increase in cash and cash equivalents	5,216	3,551
Cash and cash equivalents at the beginning of period	9,450	3,361
	-----	-----
Cash and cash equivalents at end of period	\$ 14,666	\$ 6,912
	=====	=====

See accompanying notes to condensed consolidated financial statements

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AMERICAN NATIONAL FINANCIAL, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED) (IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	-----	-----
	(UNAUDITED)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year:		
Interest	\$ 226	\$ 222
Income taxes	3,096	--
PURCHASE OF SUBSIDIARIES:		
Tangible assets acquired at fair value excluding cash received	\$ --	\$ 729
Cost in excess of net assets acquired	--	4,905
Liabilities assumed at fair value	--	(750)
	-----	-----
Net cash used to acquire business	\$ --	\$ 4,884
	-----	-----
Non-cash investing activities:		
Dividend declared and unpaid	\$ 708	\$ 733

See accompanying notes to condensed consolidated financial statements

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Notes to Condensed Consolidated Financial Statements

Note A - Basis of Financial Statements

The financial information included in this report includes the accounts of American National Financial, Inc. and its subsidiaries (collectively, the "Company") and has been prepared in accordance with generally accepted accounting principles and the instructions to Form 10-Q and Article 10 of Regulation S-X. All adjustments, consisting of normal recurring accruals considered necessary for a fair presentation have been included. This report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Certain reclassifications have been made to the 2000 Consolidated Financial Statements to conform to classifications used in 2001.

Note B - Stock Dividend

The Company's Board of Directors announced on May 24, 2001, the declaration of a 10% stock dividend payable on June 21, 2001 to shareholders of record on June 7, 2001. Fractional shares were cashed out and payments were made to shareholders in lieu of fractional shares. All data with respect to earnings per share, dividends per share and share information, including price per share where applicable, have been retroactively adjusted to reflect the effects of the stock

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dividend.

Note C - Cash Dividend

On June 26, 2001, the Company's Board of Directors declared a quarterly cash dividend of \$.10 per share, payable on July 17, 2001, to stockholders of record on July 2, 2001.

Note D - Stock Repurchase

In a private transaction on June 7, 2001, the Company purchased 894,000 shares of its common stock from Fidelity National Financial, Inc. for \$4.9 million or \$5.45 per share.

Additionally, in the quarter ended June 30, 2001, the Company repurchased 89,650 shares of its common stock in open market transactions for \$329,300 (an average price per share of \$3.67). The total number of shares purchased through June 30, 2001 pursuant to the Company's Stock Repurchase Program was 378,293 at a cost of \$1.4 million (an average price per share of \$3.70).

Note E - Department of Insurance

In June 2001, auditors from the State of California Department of Insurance commenced an examination of American Title Company ("ATC"). The examination is in its preliminary stages and is currently anticipated to continue for the next six months.

At this time, the Company does not believe that the result of this examination will have a material impact on its financial position.

NOTE F - Compliance Reporting

The State Banking Department, State of Arizona ("State Banking Department") commenced April 2, 2001 an examination of American Title Insurance of Arizona, Inc. ("American of Arizona") as of and for the period ended February 28, 2001.

On May 16, 2001 the State Banking Department delivered their Report of Examination indicating that American of Arizona, although having made substantial improvement since its last examination, may still not have been in compliance with certain state banking regulations.

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On June 9, 2001, American of Arizona provided its response to the State Banking Department. The Company has stated that it is committed to implement appropriate measures to ensure future compliance. The Company does not anticipate any further response from the State Banking Department and considers the matter complete.

NOTE G - Earnings Per Share

The Company presents "basic" earnings per share representing net earnings divided by the weighted average shares outstanding (excluding all common stock equivalents), and "diluted" earnings per share, representing the dilutive effect of all common stock equivalents. The following table illustrates the computation of basic and diluted earnings per share.

THREE MONTHS ENDED

SIX MONTHS ENDED

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	JUNE 30,		JUNE 30,	
	2001	2000	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Net earnings, basic and diluted basis	\$3,404	\$ 643	\$5,664	\$ 311
	=====	=====	=====	=====
Weighted average shares outstanding during the period, basic basis	7,748	8,044	7,975	7,998
Plus: Common stock equivalent shares assumed from conversion of options	638	--	528	--
	-----	-----	-----	-----
Weighted average shares outstanding during the period, diluted basis	8,386	8,044	8,503	7,998
	=====	=====	=====	=====
Basic earnings per share	\$ 0.44	\$ 0.08	\$ 0.71	\$ 0.04
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.41	\$ 0.08	\$ 0.67	\$ 0.04
	=====	=====	=====	=====

Note H -- Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires that all business combinations be accounted for under the purchase method. The statement further requires separate recognition of intangible assets that meet one of two criteria. The statement applies to all business combinations initiated after June 30, 2001.

SFAS No. 142 requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. The statement also provides that goodwill should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. Existing goodwill will continue to be amortized through the remainder of 2001 at which time amortization will cease and the Company will perform a transitional goodwill impairment test. SFAS No. 142 is effective for fiscal periods beginning after December 15, 2001. The Company is currently evaluating the impact of the new accounting standards on existing goodwill and other intangible assets. While the ultimate impact of the new accounting standards has yet to be determined, goodwill amortizations expense for the six months ended June 30, 2001 was \$281,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Factors That May Affect Operating Results

The statements contained in this report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's expectations, hopes, intentions or strategies regarding the future.

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All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. It is important to note that the Company's actual results could differ materially from those in such forward-looking statements. The reader should consult the risk factors listed from time to time and other information disclosed in the Company's reports on Forms 10-K and filings under the Securities Act of 1933, as amended.

Results of Operations

Total revenues for the second quarter ended June 30, 2001 increased 68.7% to \$35.3 million from \$20.9 million in the comparable 2000 period. Total revenues for the six-month period ended June 30, 2001 increased 64.7% to \$63.6 million from \$38.6 million for the same prior year period. The increase in total revenue for the three-month and six-month periods is a result of the interest rate decreases beginning in late 2000, caused by actions taken by the Federal Reserve Board resulting in the significant increase in refinancing and resale transactions and the increase of the Company's order count and premium volume.

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Net Title Service Revenue. Net title service revenue increased \$8.8 million, or 78.0% to \$20.0 million from \$11.2 million, and \$13.8 million or 66.1% to \$34.8 million from \$20.9 million, for the three-month and six-month periods ended June 30, 2001, respectively, as the result of an increase in closed title orders and the increase in the refinance business. For the three and six-month periods ended June 30, 2001 the average fee per file decreased to \$849 and \$838 compared with \$954 and \$915 in the comparable 2000 period. The fee per file decrease is indicative of a change in the mix of title orders closing in a refinance driven market compared to the higher fee per file resale business.

The following table depicts monthly title and escrow orders opened and closed for the first and second quarter of 2000 and the first and second quarter of 2001.

Month -----	Orders Opened -----	Orders Closed -----
January 2001	19,057	6,936
February 2001	19,958	8,147
March 2001	20,434	11,119
First Quarter 2001	59,449	26,202
April 2001	16,227	10,886
May 2001	15,851	11,900
June 2001	13,431	10,967
Second Quarter 2001	45,509	33,753
January 2000	8,317	4,788
February 2000	8,950	5,307
March 2000	9,911	6,556
First Quarter 2000	27,178	16,651
April 2000	8,428	5,635
May 2000	9,043	5,924
June 2000	8,801	6,182

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Second Quarter 2000

26,272

17,741

Escrow Fees. Escrow fees for the second quarter of 2001 increased \$3.0 million, or 52.1% to \$8.7 million. For the six months ended June 30, 2001, escrow fees were \$15.5 million, an increase of \$4.9 million, or 47.0%. Escrow fees are primarily related to title insurance activity generated by the Company's direct operations. The increase in escrow fees is primarily the result of market conditions relating to refinance activity largely fueled by continued interest rate decreases.

Other Service Charges. Other service charges relate partly to the level and mix of business, as well as the performance of certain ancillary service businesses. Other service charges for the second quarter of 2001 increased \$2.6 million, or 69.0% to \$6.3 million from \$3.7 million in the comparable 2000 period. The increase in the three-month period ended June 30, 2001 is attributed to the Company's strategy to strengthen its ancillary service business. Other services charges totaled \$11.7 million for the six-month period ended June 30, 2001, an increase of \$5.1 million, or 77.7% from other service charges of \$6.6 million for the 2000 period. The Company continues to leverage its core title and escrow businesses and national presence to successfully expand ancillary service businesses.

Investment Income. Investment and interest income are primarily a function of securities markets and interest rates and the amount of cash available for investment. The Company strengthened its balance sheet with the acquisition of National Title Insurance of New York, Inc ("National") and shifted to a fixed income portfolio. Investment income in the second quarter of 2001 increased \$52,000 or 21.9% to \$289,000 from \$237,000 in the corresponding 2000 period. The slight increase in investment and interest income earned in the second quarter ended June 30, 2001 is primarily the result of an increase in average invested assets. Investment and interest income for the six-month period ended June 30, 2001 totaled \$1.6 million compared with \$518,000 in the same 2000 period. The significant increase of \$1.1 million resulted from the gain on sale of a block of equity securities at the quoted market price.

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The Company's operating expenses consist primarily of personnel and other operating expenses, which are incurred as orders are received and processed. Net title service revenue and certain other fees are not recognized as income until the transaction closes. As a result, revenue lags approximately 60-90 days behind expenses and therefore gross margins may fluctuate.

Personnel Costs. Personnel costs include base salaries, commissions and bonuses paid to employees and are the most significant operating expense incurred by the Company. Personnel costs, as a percentage of total revenue, exclusive of investment income, decreased to 53.9% for the three-month period ended June 30, 2001 compared with 61.4% for the corresponding period in 2000. The decrease in personnel costs for the three-month period ended June 30, 2001 is the result of the Company's ability to adjust staffing levels and respond as necessary to prevailing market conditions. For the six-month periods ended June 30, 2001 and 2000, personnel expenses as a percentage of total revenue were 56.0% and 64.4%, respectively. Personnel costs totaled \$18.8 million and \$12.7 million for the three-month periods ended June 30, 2001 and 2000, respectively and \$34.7 million and \$24.5 million for the six-month periods ended June 30, 2001 and 2000, respectively. These expenses fluctuate with the level of orders opened and closed and the mix of revenue.

Other Operating Expenses. Other operating expenses consist of facilities

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expenses, escrow losses, postage and courier services, data processing expense, general insurance, trade and notes receivable allowance and depreciation. Other operating expense decreased as a percentage of total revenue, exclusive of investment income, to 24.0% in the three-month period ended June 30, 2001, compared with 27.4% for the corresponding 2000 period. Other operating expenses as a percentage of total revenue decreased to 24.6% for the six-month period ended June 30, 2001 compared with 28.8% for the corresponding 2000 period. Other operating expenses totaled \$8.4 million and \$5.7 million, for the three-month periods ended June 30, 2001 and 2000, respectively. For the six-month periods ended June 30, 2001 and 2000, other operating expenses totaled \$15.2 million and \$11.0 million, respectively. The Company maintains aggressive cost control programs in order to keep operating expenses consistent with levels of revenue; however, certain fixed costs are incurred regardless of revenue levels, resulting in quarter over quarter and year over year percentage fluctuations.

Title Plant Rent and Maintenance Expense. Title plant rent and maintenance expense totaled \$2.3 million and \$1.4 million for the three-month periods ended June 30, 2001 and 2000, respectively, and \$4.0 million and \$2.6 million for the six-month periods ended June 30, 2001 and 2000, respectively. Title plant rent and maintenance expense slightly decreased as a percentage of total revenue, exclusive of investment income, to 6.5% from 7.0% in the three-month periods ended June 30, 2001 and 2000, respectively, and to 6.5% and 6.8% of total revenues for the six-month periods ended June 30, 2001 and 2000. The decrease in title plant expense is primarily a result of renegotiations within several counties in California and Arizona resulting in maintaining consistent cost reductions for the Company.

Income tax expense for both the three-month and six-month periods ended June 30, 2001 and 2000, as a percentage of earnings before income taxes was 41.0%. Income tax expense as a percentage of earnings before income taxes remains consistent, however, any future fluctuations could be attributable to the effect of state income taxes on the Company's primary subsidiary the wholly-owned underwritten title company and the ancillary service companies; a change in the amount and the characteristics of net income, operating income versus investment income; and the tax treatment of certain items.

Liquidity and Capital Resources

The Company's current cash requirements include debt service, debt relating to capital leases, personnel and other operating expenses and taxes. The Company believes that all anticipated cash requirements for current operations will be met from internally generated funds. The Company's cash requirements include expenses relating to the development of National Title Insurance of New York, Inc. ("National") business. While the Company presently has in place much of the infrastructure (principally consisting of personnel) that will be used for this development, management believes that additional cash resources will be required. Cash requirements for the development of National are expected to be met from current cash balances and internally generated funds.

One source of the Company's funds is distributions from its subsidiaries. As a holding company, the Company may receive cash from its subsidiaries in the form of dividends and as reimbursement for operating and other administrative expenses it incurs. The Company's underwritten title company collects premiums and fees and pays underwriting fees and operating expenses. The underwritten title company is restricted only to the extent of maintaining minimum levels of working capital and net worth, but are not restricted by state regulations or banking authorities in their ability to pay dividends and make distributions.

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National is subject to regulations that restrict its ability to pay dividends or make other distributions of cash or property to its parent company without prior approval from the Department of Insurance of the State of New York. At June 30, 2001, the maximum amount of dividends which can be paid by National to shareholders without prior approval of the Insurance Commissioner is subject to restrictions. No dividends, including any dividends paid in the preceding twelve months, which exceed 10% of the outstanding capital shares can be paid without prior approval unless after deducting dividends National has surplus to policyholders at least equal to the greater of 50% of its reinsurance reserves or 50% of the minimum capital required. Additionally, dividends are further limited to National's earned surplus.

The Company's other subsidiary operations collect revenue and pay operating expenses; however, they are not regulated by insurance regulatory or banking authorities. Positive cash flow from the underwritten title company ("UTC") and other subsidiary operations is invested primarily in short term cash and cash equivalent.

The short-term and long-term liquidity requirements of the Company, the insurance company, UTC and ancillary subsidiaries are monitored regularly. The Company and its subsidiaries forecast their daily cash needs and review their short-term and long-term projected sources and use of funds, as well as the asset, liability, investment and cash flow assumptions for future projects.

Item 3. Quantitative and Qualitative Market Risk Disclosures

There have been no material changes in the market risk described in our annual report on Form 10-K for the year ended December 31, 2000.

Interest Rate Risk

The Company's fixed maturity investments and borrowings are subject to interest rate risk. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

Equity Price Risk

The carrying values of investments subject to equity price risks are based on quoted market prices or management's estimates of fair value as of the balance sheet date. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

Part II: OTHER INFORMATION

Item 2. Changes in Securities

The Company's Board of Directors announced on May 24, 2001, the declaration of a 10% stock dividend payable on June 21, 2001 to shareholders of record on June 27, 2001. Fractional shares were cashed out and payments were made to shareholders in lieu of fractional shares. All data with respect to earnings per share, dividends per share and share information including price per share where applicable, have been retroactively adjusted to reflect the effects of the stock

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dividend.

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Item 4. Submission of Matter to Vote of Securities Holders

On June 26, 2001, the Company held its Annual Meeting of Shareholders pursuant to a Notice and Proxy Statement dated May 8, 2001. At the meeting, shareholders elected Michael C. Lowther, Carl A. Strunk, Barbara A. Ferguson and Matthew K. Fong (7,441,540 for and 52,548 withheld); William P. Foley, II, Wayne D. Diaz (7,441,356 for and 52,732 withheld); Bruce Elieff and Bruce L. Nelson (7,434,717 for and 59,373 withheld) as Directors recommended by management.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

None.

(b) Reports on Form 8-K:

None.

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