



ATTORNEYS' TITLE INSURANCE FUND, INC. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2003 AND 2002

*The Fund*







TO THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF ATTORNEYS' TITLE INSURANCE FUND, INC.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholder's equity and cash flows present fairly, in all material respects, the financial position of Attorneys' Title Insurance Fund, Inc. and its subsidiaries ("The Fund") at December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

April 16, 2004



**Consolidated Statements of Income**

Years Ended December 31, 2003 and 2002

	<b>2003</b>	<b>2002</b>
<b>Revenues</b>		
Title insurance premiums	\$117,107,328	\$ 92,197,647
Title information revenue	41,328,922	37,328,525
Secondary mortgage sales	5,468,056	-
Net investment income	2,437,303	2,928,313
Net realized investment gains (losses)	1,170,186	(3,422,721)
Other income	4,166,029	4,505,612
	<u>171,677,824</u>	<u>133,537,376</u>
<b>Expenses</b>		
Provision for claims and claims expenses	27,870,300	22,368,698
Operating, general and administrative	100,502,185	95,984,412
	<u>128,372,485</u>	<u>118,353,110</u>
Income before income taxes and minority interest in income of consolidated subsidiaries	43,305,339	15,184,266
Income tax expense	16,207,797	5,126,704
Income before minority interest in income of consolidated subsidiaries	27,097,542	10,057,562
Minority interest in income of consolidated subsidiaries	(771,151)	(15,995)
Net income	<u>\$ 26,326,391</u>	<u>\$ 10,041,567</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Shareholder's Equity**

Years Ended December 31, 2003 and 2002

	Common Class A	Stock Class B	Capital in Excess of Par Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Comprehensive Income	Total
Balance, December 31, 2001	\$ 2,000,000	\$ -	\$ 22,443,828	\$ 1,279,232	\$ 38,195,404		\$ 63,918,464
Comprehensive income							
Net income	-	-	-	-	10,041,567	\$ 10,041,567	10,041,567
Unrealized net loss on investments available for sale, net of deferred income taxes of \$(1,300,000)	-	-	-	-	-	(2,066,298)	(2,066,298)
Unrealized net gain on interest rate swap, net of deferred income taxes of \$38,000	-	-	-	-	-	57,000	57,000
Other comprehensive loss	-	-	-	(2,009,298)	-	(2,009,298)	
Comprehensive loss	-	-	-	-	-	\$ 8,032,269	
Dividends	-	-	-	-	(200,000)		(200,000)
Balance, December 31, 2002	2,000,000	-	22,443,828	(730,066)	48,036,971		71,750,733
Comprehensive income							
Net income	-	-	-	-	26,326,391	\$ 26,326,391	26,326,391
Unrealized net gain on investments available for sale, net of deferred income taxes of \$3,935,233	-	-	-	-	-	6,266,302	6,266,302
Unrealized net gain on interest rate swap, net of deferred income taxes of \$30,767	-	-	-	-	-	48,993	48,993
Other comprehensive income	-	-	-	6,315,295	-	6,315,295	
Comprehensive income	-	-	-	-	-	\$ 32,641,686	
Dividends	-	-	-	-	(200,000)		(200,000)
Balance, December 31, 2003	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ 22,443,828</u>	<u>\$ 5,585,229</u>	<u>\$ 74,163,362</u>		<u>\$ 104,192,419</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Cash Flows**

Years Ended December 31, 2003 and 2002

	2003	2002
<b>Cash flows from operating activities</b>		
Net income	\$ 26,326,391	\$ 10,041,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,080,156	2,706,335
Deferred income taxes	(1,523,534)	(1,584,540)
Provision for bad debts	810,082	645,340
Minority interest in income of consolidated subsidiaries	771,151	15,995
Loss on disposal of property and equipment	221,434	18,253
Loss on disposal of title plant records	-	61,610
Net realized investment (gains) losses	(1,170,186)	3,422,721
Changes in operating assets and liabilities		
Accrued investment income	(253,381)	53,567
Receivable for title insurance premiums and fees	(2,932,073)	(13,394,386)
Refundable income taxes	-	1,083,776
Title plant records	(23,596)	(296,810)
Other assets	132,947	1,109,860
Mortgages held for sale	(5,606,940)	-
Reserve for title losses	16,460,000	8,960,000
Accounts payable	508,934	(82,080)
Accrued expenses	(445,091)	5,122,592
Income taxes payable	4,826,856	3,485,080
Other liabilities	199,869	70,429
Net cash provided by operating activities	<u>41,383,019</u>	<u>21,439,309</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	72,275,911	68,848,385
Purchases of investments	(106,032,057)	(77,650,263)
Proceeds from disposition of property and equipment	800	1,028
Capital expenditures	(2,208,559)	(2,043,992)
Additions to title plant records	(3,500)	(33,525)
Net cash used in investing activities	<u>(35,967,405)</u>	<u>(10,878,367)</u>
<b>Cash flows from financing activities</b>		
Payments on long-term debt	(500,000)	(500,000)
Net borrowings under warehouse line of credit	4,353,304	-
Dividends paid	(200,000)	(200,000)
Payments on capital leases	(99,800)	(90,354)
Net cash provided by (used in) financing activities	<u>3,553,504</u>	<u>(790,354)</u>
Net increase in cash and cash equivalents	8,969,118	9,770,588
<b>Cash and cash equivalents</b>		
Beginning of year	17,519,807	7,749,219
End of year	<u>\$ 26,488,925</u>	<u>\$ 17,519,807</u>
<b>Supplemental disclosure of cash flow information</b>		
Income taxes paid	\$ 12,497,994	\$ 1,860,425
Interest paid	\$ 646,001	\$ 283,128

The accompanying notes are an integral part of these consolidated financial statements.

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

### I. Summary of Significant Accounting Policies

#### Organization

Attorneys' Title Insurance Fund, Inc. (The Fund), a wholly owned subsidiary of Attorneys' Title Insurance Fund (The Trust), is a corporation formed January 1, 1986, in the State of Florida. At that time, all of the assets and liabilities of The Trust, a business trust organized in 1947 under the laws of the State of Florida, were transferred to The Fund in exchange for all of the 1,000,000 then issued shares of The Fund's Class A voting common stock. The Fund assumed the operations of The Trust and thus exists to guarantee and insure titles to, interests in, and liens upon real estate through its agents, who are members of The Trust. Membership in The Trust is limited to persons who are actively engaged in the private practice of law in Florida.

The Fund operates as a title insurer under authority granted by the Insurance Commissioner of the State of Florida. Additionally, The Fund is licensed in the States of Georgia, Illinois, Minnesota, Maryland, North Carolina, South Carolina, Indiana, North Dakota, Alabama, Arkansas and Michigan. During 2003 and 2002, The Fund conducted business in Florida, Georgia, Illinois, Minnesota, South Carolina, Alabama and Arkansas. The Fund also provides real estate title information throughout Florida.

The Fund grants credit to its customers, a large majority of whom are members of The Trust, are attorneys, and reside in the State of Florida.

National Attorneys' Title Assurance Fund, Inc. (NATAF) guarantees and insures title to, interests in, and liens upon real estate as well as provides title search services. NATAF is an approved underwriter in Indiana. The Fund owns a 51% voting interest in NATAF.

Attorneys' Mortgage Services, LLC (AMS) provides mortgage brokerage services, primarily in the State of Florida. The Fund is a 45% member in AMS.

#### Principles of Consolidation

The consolidated financial statements include the accounts of The Fund and its consolidated subsidiaries, NATAF, AMS and Atticus Holdings, Inc. All significant intercompany accounts and transactions have been eliminated.

#### Derivative Financial Instruments

The Fund adopted Financial Accounting Standards Board ("FASB") Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133") and FASB Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, an amendment to FAS 133 ("FAS 138"). FAS 133 requires all derivative financial instruments, such as interest rate swaps, to be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair market value of derivative financial instruments are either recognized periodically in income or shareholder's equity (as a component of accumulated other comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows. FAS 138 amended the accounting and reporting standards for certain derivative instruments and hedging activities under FAS 133.

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

### Investment Securities

Certain investments in debt and equity securities are required to be classified in three categories: held to maturity, available for sale and trading securities. As of December 31, 2003 and 2002, all of The Fund's investment securities were classified as available for sale, and as such are recorded at fair value with unrealized gains and losses, net of deferred income taxes, excluded from income and reported as a separate component of accumulated other comprehensive income in shareholder's equity.

Realized gains and losses on the sale of debt and equity securities are determined using the first-in, first-out method.

### Cash and Cash Equivalents

The Fund considers all highly liquid investments with an original maturity of three months or less at time of purchase to be cash equivalents. Cash and cash equivalents consist of cash and money market funds. The Fund places its cash and cash equivalents with high-credit, quality institutions. At times, such deposits may be in excess of the FDIC insurance limit.

### Escrow Funds

Segregated cash and cash equivalents and the corresponding liabilities to escrow depositors in the amounts of \$34,487,547 and \$29,699,320 at December 31, 2003 and 2002, respectively, are not included as assets and liabilities in the accompanying consolidated balance sheets as these amounts are not considered assets or liabilities of The Fund.

### Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Additions and betterments are capitalized while maintenance and repairs which do not improve or extend the lives of the respective assets are expensed when incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts, and any profit or loss on disposition is credited or charged to income.

Depreciation is recorded using the straight-line method applied to the cost of the assets over their estimated useful lives, as follows:

Land improvements	15 years
Buildings	15 to 25 years
Furniture, fixtures and equipment	3 to 10 years
Data processing equipment	3 to 7 years
Leasehold improvements	1 to 11 years

Long-lived assets are evaluated regularly for other-than-temporary impairment. If circumstances suggest that their carrying value may not be recoverable, an impairment test is performed comparing the carrying value of the asset to estimated undiscounted cash flows. If assets are considered to be impaired, a charge is recorded to the extent that fair value is less than carrying value. There were no impairment charges for the years ended December 31, 2003 and 2002.

## **Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

Leases meeting appropriate capitalization criteria are recorded as assets and included in property and equipment. These assets are amortized using the straight-line method over either the term of the lease or The Fund's normal useful life assigned to assets of that type, whichever is less. Included in data processing equipment are capitalized software costs.

### **Title Plant Records**

Acquired title plants are recorded at cost at the date of acquisition. Costs incurred to obtain, organize and summarize historical information in the construction of new title plants are also capitalized. In accordance with industry practice, no depreciation expense is recorded on the title plant records because they have an indeterminate life and they do not diminish in value with the passage of time.

Title plant retroconversion costs, which are costs incurred after a title plant is operational to modify or modernize the storage and retrieval system, are deferred and amortized on a straight-line basis over a 20-year period. Costs such as salaries and supplies associated with current maintenance of title plants are charged to expense in the year incurred.

### **Mortgages Held for Sale**

Loans held for sale include residential mortgage loans originated with the intent to sell in the secondary market. Pursuant to the mortgage terms, the borrowers have pledged the underlying real estate as collateral for the loans. It is the general practice to sell these loans to mortgage loan purchasers shortly after they are funded. Loans held for sale are carried at the lower of cost or market value. Any amount by which cost exceeds market value is accounted for as a valuation allowance, with changes in the valuation allowance reflected in earnings. There was no valuation allowance at December 31, 2003.

### **Reserve for Title Losses**

Title insurance claims arise principally from unknown title defects which exist at the time policies become effective. The reserve for title losses, which is actuarially determined based on historical loss experience, represents the estimated costs to settle reported claims, estimated future claims relating to title policies in force and estimated undiscounted costs associated with settling such current and future claims. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings.

### **Title Insurance Premiums and Title Information Revenue**

Title insurance premiums, net of agents' premiums, are recognized as revenue when policies become effective. Title information revenue is recognized as the information is delivered, and accounts receivable arising from this revenue are recorded at that time. The Fund records a provision for bad debts based on management's judgement of collectibility, which includes factors such as age of receivable, terms, historical write-offs, financial status of debtor and other circumstances.

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

### Secondary Mortgage Sales

Secondary mortgage sales are derived from the origination and sale of loans. Mortgage loans are funded through AMS's warehouse line of credit and sold to mortgage loan purchasers typically within 30 days. Mortgage loan revenues consist of proceeds in excess of the carrying value of the loan, origination fees less certain direct origination costs and other processing fees. These revenues are recognized at the time the loan is sold. AMS sells these loans to loan purchasers on a servicing released basis without recourse, subject to certain representations and warranties.

### Advertising and Marketing Costs

Advertising and marketing costs related to various media content advertising such as direct mail and radio are charged to operating expenses as incurred. These costs include the cost of production as well as the cost of any air time. Total advertising expenses for the years ended December 31, 2003 and 2002 were \$2,725,975 and \$3,261,322, respectively.

### Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or receivable for the period and the change during the period in deferred tax assets and liabilities.

The Fund files a consolidated income tax return with its parent, The Trust. Under the present tax sharing arrangement, any loss of The Trust is allocated to The Fund.

### 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 assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The significant management estimates include reserve for title losses and estimated premiums receivable. Actual results could differ from those estimates.

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

**2. Investments Available for Sale**

Investments available for sale at December 31 were as follows:

	<b>2003</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Fixed maturities</b>				
Debt securities, U.S.	\$ 26,590,575	\$ 105,479	\$ (30,098)	\$ 26,665,956
Debt securities, state and municipal	24,279,597	693,089	(46,135)	24,926,551
Corporate debt securities	27,580,707	1,002,052	(131,015)	28,451,744
Mortgage-backed securities	3,795,538	66,720	(25,465)	3,836,793
	<u>82,246,417</u>	<u>1,867,340</u>	<u>(232,713)</u>	<u>83,881,044</u>
Certificates of deposit	1,400,000	-	-	1,400,000
<b>Equity securities</b>				
Common stock	39,916,027	6,595,186	(218,786)	46,292,427
Preferred stock	3,290,563	389,948	(4,663)	3,675,848
Mutual funds	3,507,987	902,986	-	4,410,973
	<u>46,714,577</u>	<u>7,888,120</u>	<u>(223,449)</u>	<u>54,379,248</u>
	<u>\$ 130,360,994</u>	<u>\$ 9,755,460</u>	<u>\$ (456,162)</u>	<u>\$ 139,660,292</u>
<b>2002</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Fixed maturities</b>				
Debt securities, U.S.	\$ 12,910,780	\$ 225,280	\$ -	\$ 13,136,060
Debt securities, state and municipal	25,068,566	1,059,360	(13,609)	26,114,317
Corporate debt securities	17,896,700	746,381	(390,625)	18,252,456
Mortgage-backed securities	4,861,406	168,022	-	5,029,428
	<u>60,737,452</u>	<u>2,199,043</u>	<u>(404,234)</u>	<u>62,532,261</u>
Certificates of deposit	1,300,000	-	-	1,300,000
<b>Equity securities</b>				
Common stock	25,137,748	466,085	(2,341,428)	23,262,405
Preferred stock	2,120,905	8,463	(229,839)	1,899,529
Mutual funds	6,187,834	-	(687,108)	5,500,726
	<u>33,446,487</u>	<u>474,548</u>	<u>(3,258,375)</u>	<u>30,662,660</u>
	<u>\$ 95,483,939</u>	<u>\$ 2,673,591</u>	<u>\$ (3,662,609)</u>	<u>\$ 94,494,921</u>

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

Proceeds from sales of available for sale securities were \$63,078,130 and \$64,385,388 for 2003 and 2002, respectively. Resultant gross gains of \$3,982,891 and \$5,802,553 were realized in 2003 and 2002, respectively. Resultant gross losses of \$2,802,066 and \$7,614,520 were realized in 2003 and 2002, respectively.

Write-downs for impairments which were deemed to be other-than-temporary for investments were \$10,640 and \$1,610,754 for the years ended 2003 and 2002, respectively.

The amortized cost and fair value of debt and mortgage-backed securities at December 31, 2003, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Amortized Cost</b>	<b>Fair Value</b>
Debt securities		
Due in one year or less	\$ 1,932,587	\$ 1,941,674
Due after one year through five years	43,022,204	43,651,891
Due after five years through ten years	18,914,443	19,205,082
Due in more than ten years	14,581,645	15,245,604
	<u>78,450,879</u>	<u>80,044,251</u>
Mortgage-backed securities	3,795,538	3,836,793
	<u>\$ 82,246,417</u>	<u>\$ 83,881,044</u>

Net investment income earned for the years ended December 31, 2003 and 2002 consists of the following:

	<b>2003</b>	<b>2002</b>
Interest		
Debt and mortgage-backed securities	\$ 2,338,369	\$ 2,878,489
Certificates of deposit	9,870	16,049
Cash and cash equivalents	208,184	212,503
Other	2,140	22,335
Dividends on stock	580,420	478,352
Gross investment income	<u>3,138,983</u>	<u>3,607,728</u>
Less: investment fees	(701,680)	(679,415)
Net investment income	<u>\$ 2,437,303</u>	<u>\$ 2,928,313</u>

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

**3. Property and Equipment**

Property and equipment consist of the following at December 31:

	<b>2003</b>	<b>2002</b>
Land	\$ 4,173,540	\$ 4,194,690
Land improvements	314,859	314,859
Buildings	9,627,317	9,444,239
Furniture, fixtures and equipment	8,372,287	9,589,293
Data processing equipment	22,277,895	21,112,744
Leasehold improvements	<u>1,291,950</u>	<u>1,264,185</u>
	46,057,848	45,920,010
Less: accumulated depreciation and amortization	<u>(30,753,723)</u>	<u>(30,430,823)</u>
	<u>\$ 15,304,125</u>	<u>\$ 15,489,187</u>

The unamortized computer software costs included in data processing equipment were \$1,815,241 and \$1,196,710 at December 31, 2003 and 2002, respectively. Depreciation and amortization expense was \$2,322,243 and \$2,375,524 for the years ended December 31, 2003 and 2002, respectively.

**4. Title Plant Records**

Title plant records consist of the following at December 31:

	<b>2003</b>	<b>2002</b>
Title plant records acquired	\$ 2,126,495	\$ 2,126,495
Title plant records constructed	2,152,577	2,183,119
Title plant retroconversion, net of accumulated amortization of \$1,101,708 and \$944,947 at December 31, 2003 and 2002, respectively	<u>2,414,414</u>	<u>2,513,537</u>
	<u>\$ 6,693,486</u>	<u>\$ 6,823,151</u>

Amortization expense was \$156,761 and \$160,684 for the years ended December 31, 2003 and 2002, respectively.

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

**5. Segregated Assets**

The following assets at December 31 have been segregated for the statutory unearned premium reserve:

	<b>2003</b>	<b>2002</b>
Debt and mortgage-backed securities	\$ 73,485,558	\$ 54,996,066
Common stock	30,282,808	16,934,404
Preferred stock	3,675,848	1,899,529
Mutual funds	4,698,342	4,123,085
	<u>\$ 112,142,556</u>	<u>\$ 77,953,084</u>

Certificates of deposit in varying amounts totaling \$800,000, United States Treasury notes in varying amounts totaling \$645,000 and a United States Treasury money market account totaling \$200,000 are on deposit with the Departments of Insurance of several states. Such deposits are made in accordance with statutory requirements.

**6. Reserve for Title Losses**

Activity in the reserve for title losses is summarized as follows:

	<b>2003</b>	<b>2002</b>
Balance at beginning of year	<u>\$ 89,150,000</u>	<u>\$ 80,190,000</u>
Incurred related to		
Current year	30,529,000	24,228,270
Prior years	(2,658,700)	(1,859,572)
Total incurred	<u>27,870,300</u>	<u>22,368,698</u>
Paid related to		
Current year	2,499,482	1,378,525
Prior years	8,910,818	12,030,173
Total paid	<u>11,410,300</u>	<u>13,408,698</u>
Balance at end of year	<u>\$ 105,610,000</u>	<u>\$ 89,150,000</u>

As a result of changes in estimates of the ultimate outcome of insured events in prior years, the provision for unpaid losses and loss adjustment expenses decreased \$2,658,700 and \$1,859,572 in 2003 and 2002, respectively, because of revisions of estimates of losses.

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

**7. Note Payable**

Note payable at December 31 consists of the following:

	2003	2002
Note payable to bank, monthly principal installments of \$41,667 through April 8, 2012, with interest payable monthly at LIBOR plus 145 basis points at December 31, 2003 and 2002, respectively, (2.62% and 2.8837% at December 31, 2003 and 2002, respectively), collateralized by the headquarters building	\$ 4,166,667	\$ 4,666,667

The following table presents debt maturities during the next five years and thereafter:

2004	\$ 500,000
2005	500,000
2006	500,000
2007	500,000
2008	500,000
Thereafter	1,666,667
	\$ 4,166,667

Interest expense, including interest on capital leases totaled \$243,870 and \$282,680 in 2003 and 2002, respectively.

**8. Warehouse Line of Credit**

AMS has a warehouse line of credit with a major financial institution. Related debt outstanding at December 31, 2003 was \$4,353,304 and is collateralized by all mortgages held for sale by AMS. This line of credit agreement generally requires AMS to comply with various financial and nonfinancial covenants. The Fund, along with the other members of AMS, is a guarantor for the line in the event of default.

The maximum amount of the line of credit was \$33,000,000 at December 31, 2003 with the following maximum sublimits:

- Sublimit A to be used for conforming mortgage loans; maximum line of \$33,000,000 through December 31, 2003 and \$15,000,000 thereafter; interest at 30 day LIBOR rate plus 225 basis points, floating daily, however, if advance is warehoused for longer than 60 days, interest at the 30 day LIBOR plus 250 basis points;
- Sublimit B to be used for wet mortgage loans; maximum line of \$9,900,000 increasing to \$13,200,000 for the last five and first five banking days of a month through December 31, 2003 and \$4,500,000 thereafter with an increase to \$6,000,000 for the last five and first five banking days of a month; interest at 30 day LIBOR rate plus 275 basis points, floating daily;

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

- Sublimit C to be used for nonconforming mortgage loans; maximum line of \$1,500,000; interest at 30 day LIBOR rate plus 260 basis points, floating daily, however, if advance is warehoused for longer than 60 days, interest at the 30 day LIBOR plus 285 basis points;
- Sublimit D to be used for repurchase and/or ineligible mortgage loans; maximum line of \$500,000; interest at prime rate plus 100 basis points, floating daily.

Warehouse interest expense and warehouse transaction fees for the year ended December 31, 2003 were \$589,960 and \$82,004, respectively. The warehouse line of credit agreement expires on June 30, 2004.

**9. Derivative Financial Instrument**

The Fund uses an interest rate swap agreement (the "swap agreement") to minimize fluctuations in cash flows caused by interest rate volatility and to effectively convert a portion of its floating-rate debt to fixed-rate debt. Such agreement involves the exchange of fixed- and floating-rate interest payments over the life of the agreement without the exchange of the underlying principal amounts. Accordingly, the impact of fluctuations in interest rates on this swap agreement is offset by the opposite impact on the related debt. Amounts to be paid or received under the swap agreement are recognized as increases or reductions in interest expense in the periods in which they accrue. The swap agreement is entered into with only creditworthy counter-parties. The swap agreement in effect at December 31, 2003 was as follows:

<b>Pay Rate</b>	<b>Notional Amount</b>	<b>Maturity</b>	<b>Receive Rate*</b>	<b>Fair Value</b>
6.35%	\$ 2,066,616	August 9, 2007	1.17%	\$ (215,850)

\* Based on one-month LIBOR

The following is a summary of The Fund's interest risk management strategy and the effect of this strategy on The Fund's consolidated financial statements.

Under the swap agreement (the "hedging instrument"), The Fund agrees to pay an amount equal to a specified fixed rate of interest times a notional principal amount and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. The notional amounts on the contract are not exchanged. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination. To date, The Fund has not terminated the hedging instrument prior to maturity.

The Fund's swap agreement provides a hedge against changes in the amount of cash flows associated with The Fund's note payable to the bank. Accordingly, the swap agreement is reflected at fair value in The Fund's consolidated balance sheet and the effective portion of the related gains or losses on the agreement is recognized in shareholder's equity (as a component of accumulated other comprehensive income). The net effect of this accounting on The Fund's operating results is that interest expense on the variable debt being hedged is generally recorded based on fixed interest rates.

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

The Fund formally documents the relationships between the hedging instrument and the note payable to the bank. The Fund also assesses the effectiveness of the hedging instrument on a quarterly basis. If it is determined that the hedging instrument is no longer highly effective, the change in the fair value of the hedging instrument would be included in earnings rather than comprehensive income. Management believes that the hedging instrument is 100% effective at December 31, 2003.

### 10. Reinsurance

The Fund can retain liabilities in the approximate amount of \$43,315,000 and \$25,060,000 at December 31, 2003 and 2002, respectively, based on statutory limits, but has chosen to set its primary retention limit lower. Effective January 1, 2003, The Fund entered into a reinsurance agreement with a national underwriter. The retention limits are as follows:

- The Fund retains the first \$3,000,000 of liability risk on any individual policy.
- The Fund retains 30% of the liability risk over \$3,000,000 and up to \$10,000,000 on any individual policy
- The Fund shall cede 70% of the liability risk over \$3,000,000 and up to \$10,000,000 on any individual policy to this underwriter unless otherwise specifically instructed by the lender or consumer
- The Fund shall cede, to the same underwriter, all liability risk over \$10,000,000 and up to \$30,000,000 on any individual policy unless otherwise specifically instructed by the lender or consumer

Retention limits when The Fund provides coinsurance or reinsurance for other companies shall not be in excess of \$43,315,000 and \$25,060,000 for individual policies as of December 31, 2003 and 2002, respectively. Reinsurance transactions have historically not been material.

NATAF's retention limit is \$100,000 per individual policy. Exposure in excess of the retention limit was reinsured with The Fund (See Note 14).

### 11. Employee Benefit Program

The Fund provides substantially all of its employees who meet minimum length of service requirements the following benefit plans:

- A trustee deferred savings and profit-sharing plan under Internal Revenue Code Section 401(k). Under provisions of the plan, employees may contribute up to 15% of their qualified compensation. The Fund matches the employee contribution 100% up to the first 3% of the employee's qualified compensation and 50% for the next 3% of the employee's qualified compensation. The Fund may make additional contributions, at the discretion of the Board of Directors, within various limitations specified by the Internal Revenue Code.
- A trustee money purchase defined contribution pension plan. Contributions to this plan have been set at 5% of qualified compensation of the participants.

Both of the above plans are defined contribution plans; therefore, aggregated vested interest of the participants cannot exceed the respective fund balances. Total expense charged to operations for these plans was \$3,179,453 and \$3,063,144 for 2003 and 2002, respectively.

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

**12. Income Taxes**

The components of the net deferred tax asset (liability) recognized in the accompanying consolidated balance sheets are as follows:

	<b>2003</b>	<b>2002</b>
Gross deferred tax assets	\$ 15,401,264	\$ 13,300,866
Gross deferred tax liabilities	(6,761,599)	(2,228,207)
Net deferred tax asset	<u>\$ 8,639,665</u>	<u>\$ 11,072,659</u>

The types of differences between the tax bases of assets and liabilities and their financial reporting amounts that give rise to significant portions of deferred income tax liabilities or assets are claims reserves; investments in marketable equity securities; property and equipment; deferred rent; certain accrued expenses; and asset valuation reserves.

The provision for income taxes for the years ended at December 31, 2003 and 2002 consists of the following:

	<b>2003</b>	<b>2002</b>
Current:		
Federal	\$ 14,981,136	\$ 6,014,254
State	2,750,195	696,990
	<u>17,731,331</u>	<u>6,711,244</u>
Deferred:		
Federal	(1,648,927)	(1,487,392)
State	125,393	(97,148)
	<u>(1,523,534)</u>	<u>(1,584,540)</u>
	<u>\$ 16,207,797</u>	<u>\$ 5,126,704</u>

Income tax expense (benefit) for the years ended December 31, 2003 and 2002 is different than the amount computed by applying the U.S. federal income tax rate to income before income taxes. The reasons for these differences are as follows:

	<b>2003</b>		<b>2002</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Income tax expense at maximum statutory rate	\$15,156,869	35.00%	\$ 5,314,494	35.00%
State income tax, net of federal tax benefit	1,800,990	4.26%	635,016	4.18%
Exempt investment income	(384,485)	(0.91)%	(482,085)	(3.17)%
Permanent differences	131,058	0.31%	119,471	0.79%
Other, net	(496,635)	(1.18)%	(460,192)	(3.04)%
	<u>\$16,207,797</u>	<u>37.48%</u>	<u>\$ 5,126,704</u>	<u>33.76%</u>

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

**13. Leases**

The Fund leases office facilities under noncancelable operating leases extending through 2014. In addition, The Fund leases computers and office equipment under noncancelable operating leases expiring over the next five years. In most instances, management expects that in the normal course of business, leases will be renewed, replaced by other leases or assets will be purchased to replace the leased assets.

Future minimum rental payments as of December 31, 2003, by year and in the aggregate, under operating leases having initial or remaining noncancelable lease terms in excess of one year are as follows:

2004	\$ 5,370,000
2005	4,576,000
2006	3,545,000
2007	2,075,000
2008	1,594,000
Thereafter	2,586,000
	\$ 19,746,000

Total rent expense under all operating leases, which is recognized on a straight-line basis over the terms of the leases, amounted to \$5,607,304 and \$6,502,055 in 2003 and 2002, respectively.

**14. Related Party Transactions**

During 2003, The Fund sold estimated premium receivables in the amount of \$8,000,000 to The Trust. The receivables were sold at book value, without recourse, for cash in the amount of \$8,000,000 with no resulting gain or loss.

The Trust has a lease agreement with The Fund for the utilization of the Enterprise Resource Planning financial system. The lease agreement commenced on January 1, 2002 for an initial term of three years with a monthly payment of \$88,848.

NATAF's reinsurer is The Fund. During 2003 and 2002, The Fund received \$156,074 and \$146,811 in reinsurance premium income. Also, at December 31, 2003 and 2002, The Fund had \$29,855 and \$43,414 in accounts receivable from NATAF.

During 2003, AMS leased office equipment and office space from The Fund. The office equipment leases consist of forty-six individual personal computers and are for 36 months terms which expire between November 2004 and October 2006. The monthly rent, including sales tax, ranges from \$33 to \$37 per computer per month. Rental income recorded by The Fund for these leases in 2003 was \$14,207. AMS also leases 9,064 square feet of office space from The Fund. The original lease term was two years and expires in December 2004. Annual rental income recorded by the Fund in 2003 was \$172,252.

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

**15. Reconciliation From Statutory Report (Unaudited)**

Shareholder's equity is reported on a statutory basis to regulatory authorities. The amounts filed with regulatory authorities include only the accounts of The Fund. A reconciliation of the statutory reports to the accompanying consolidated balance sheets, which are prepared on the basis of generally accepted accounting principles (GAAP), follows:

	<b>2003</b>	<b>2002</b>
Shareholder's Equity – Statutory reporting basis (Surplus as regards to policyholders)	\$ 86,630,555	\$ 50,120,258
Add (deduct) adjustments to conform with GAAP		
Statutory premium reserve	80,004,688	69,749,942
Known claims reserves	25,410,312	19,250,058
GAAP basis reserve for title losses	(105,415,000)	(89,000,000)
Assets not admitted	15,173,485	15,861,748
Debt securities market adjustment	1,634,627	1,794,810
Estimated premium receivables	1,379,167	-
Deferred rent	(577,069)	(579,205)
Deferred income taxes	8,677,307	11,079,159
Refundable income taxes	-	18,433
Tax receivable, federal	(9,510,228)	(6,466,993)
Tax receivable, state	963,358	547,628
Accrued expenses	-	(307,110)
Other, net	(231,345)	(231,345)
Net effect of consolidation	52,562	(86,650)
Shareholder's Equity – GAAP basis	<u>\$ 104,192,419</u>	<u>\$ 71,750,733</u>

The assets not admitted consist primarily of title insurance premiums and fees receivable over 90 days old, furniture and equipment, prepaid expenses and investment in affiliates.

**16. Contingencies****Dividends**

The members of The Trust have equity accounts which consist of capital accounts and cumulative unpaid allowance accounts arising from annual allocations of The Trust's earnings. At The Trust's Board of Trustees' discretion, equity accounts may be declared payable to The Trust members so long as such payment does not impair the financial integrity of The Trust. The source of funding for these equity account payments is cash distributions from The Fund. Dividends paid by The Fund are restricted by regulatory requirements of the State of Florida. The Fund declared and paid dividends of \$200,000 to The Trust during both 2003 and 2002.

In December 1992, The Fund's Board of Directors adopted a plan to accumulate excess earnings of The Fund, if available, to fund an eventual payout of certain Trust capital accounts via payment of dividends from The Fund to The Trust. Any payments of dividends contemplated by this plan can only be made after specific approval by The Trust's Board of Trustees. During 2002, The Fund's Board authorized a total of \$4,500,000 for payout of Trust capital accounts. The authorization allowed two equal payouts, one for the 2002 calendar year and one for the 2003 calendar year. However, due to certain circumstances, the payouts were made in March and May of 2003.

**Notes to Consolidated Financial Statements**

December 31, 2003 and 2002

**Other**

The Fund has various claims and legal matters occurring in the normal course of business, which management, based upon the advice of legal counsel, does not expect to have a material adverse effect on the financial position, results of operations, or cash flows of The Fund.

## KEY OFFICERS, TRUSTEES, AND DIRECTORS

### KEY OFFICERS

<b>Charles J. Kovalski</b>	<b>President</b>
<b>R. Norwood Gay III</b>	<b>Senior Vice President, Legal Services, Corporate Secretary and General Counsel</b>
<b>B. Gwen Geier</b>	<b>Senior Vice President, Employee Services</b>
<b>Michael R. Hammond</b>	<b>Senior Vice President, Marketing Services</b>
<b>Jimmy R. Jones</b>	<b>Senior Vice President, Financial Services and Treasurer</b>
<b>Sharon K. Priest</b>	<b>Senior Vice President, Branch Operations Services</b>
<b>Jeannie L. Calabrese</b>	<b>Senior Vice President, Information Services</b>
<b>Daniel L. Adams</b>	<b>Vice President, Examination Standards</b>
<b>G. Robert Arnold</b>	<b>Vice President, Special Legal Services</b>
<b>Sue Ellen Foreman</b>	<b>Vice President, Special Projects Manager</b>
<b>Louis B. Guttmann III</b>	<b>Vice President, Legal Services and Associate General Counsel</b>
<b>Patricia P. Jones</b>	<b>Vice President, Underwriting</b>
<b>R. James Knox</b>	<b>Vice President, Claims</b>
<b>Lorraine D. Isenmann</b>	<b>Assistant Secretary</b>
<b>N. Faye Marsh</b>	<b>Assistant Secretary</b>

### TRUSTEES AND DIRECTORS

**W. Henry Barber, Jr., Director Emeritus**

**J. Ernest Collins, Director Emeritus**

**Robert F. Sauer, Director Emeritus**

**Del G. Potter - Chair**

**Jerry W. Allender**

**Lewis Ansbacher**

**Richard J. Dungey**

**George T. Dunlap, III**

**Russell D. Gautier**

**Peter J. Gavina**

**Charles S. Isler, III**

**Richard W. Lyons**

**George R. Moraitis**

**Melissa J. Murphy**

**Douglas R. Neu**

**Michael A. Pyle**

**Stephen H. Reynolds**

**James L. Ritchey**

**G. Thomas Smith**

**Michael S. Smith**

**Victor E. Woodman**

**Thomas D. Wright**

**Julius J. Zschau**



ATTORNEYS' TITLE INSURANCE FUND, INC.

## MISSION STATEMENT

The Fund is in business to preserve and facilitate the real estate practices of its members in their protection of the public.

The Fund accomplishes its mission and earns the loyal support of its members by providing its members quality, competitive, and innovative products, services, and education, maintaining The Fund's long-term financial stability and encouraging professional growth and personal development of its employees.

