

ATTORNEYS' TITLE INSURANCE FUND, INC. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2001 AND 2000

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In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholder's equity and cash flows present fairly, in all material respects, the financial position of Attorneys' Title Insurance Fund, Inc. and Subsidiaries ("The Fund") at December 31, 2001 and 2000, 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*

February 22, 2002

**Consolidated Balance Sheets**

December 31, 2001 and 2000

<b>Assets</b>	<b>2001</b>	<b>2000</b>
Investments available for sale:		
Fixed maturities:		
Debt and mortgage-backed securities	\$ 59,910,586	\$ 66,905,891
Certificates of deposit	750,000	750,000
Equity securities:		
Common stock, preferred stock and mutual funds	31,775,811	35,788,469
Total investments	<u>92,436,397</u>	<u>103,444,360</u>
Cash and cash equivalents	7,749,219	4,970,512
Investment trades receivable	73,944	320,572
Accrued investment income	880,355	1,080,839
Receivable for title insurance premiums and fees, less allowance for doubtful accounts of \$567,584 and \$430,127 at December 31, 2001 and 2000	15,970,370	21,071,869
Refundable income taxes	1,083,776	2,553,708
Property and equipment, net	15,548,024	16,101,722
Title plant records	6,715,110	5,982,551
Other assets	9,760,057	7,298,397
Deferred tax asset	8,226,118	5,335,740
	<u>\$ 158,443,370</u>	<u>\$ 168,160,270</u>
<b>Liabilities and Stockholder's Equity</b>	<b>2001</b>	<b>2000</b>
Liabilities:		
Reserve for title losses and other claims	\$ 80,190,000	\$ 74,323,307
Accounts payable	2,665,471	2,687,584
Notes payable	5,166,667	14,566,667
Accrued expenses	4,790,798	4,688,159
Other liabilities	854,301	919,525
Total liabilities	<u>93,667,237</u>	<u>97,185,242</u>
Minority interest in consolidated subsidiaries	<u>857,669</u>	<u>1,820,939</u>
Commitments and contingencies (Notes 12 and 15)		
Stockholder's equity:		
Class A common stock, par value \$1 per share – 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2001 and 2000	2,000,000	2,000,000
Class B common stock, non-voting, par value \$1 per share – 5,000,000 shares authorized; none issued and outstanding	–	–
Capital in excess of par value	22,443,828	22,443,828
Accumulated other comprehensive income	1,279,232	2,346,463
Retained earnings	38,195,404	42,363,798
Total stockholder's equity	<u>63,918,464</u>	<u>69,154,089</u>
	<u>\$ 158,443,370</u>	<u>\$ 168,160,270</u>

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



**Consolidated Statements of Stockholder's Equity**

Years Ended December 31, 2001 and 2000

	Common Stock		Capital in	Accumulated	Retained	Total
	Class A	Class B	Excess of	Other	Earnings	
			Par Value	Comprehensive		
Balance, December 31, 1999	\$ 2,000,000	\$ -	\$ 22,443,828	\$ 4,848,641	\$ 44,540,605	\$ 73,833,074
Comprehensive loss:						
Net income	-	-	-	-	823,193	823,193
Unrealized net loss on investments available for sale, net of deferred income taxes of \$(1,661,000)	-	-	-	(2,502,178)	-	(2,502,178)
Total comprehensive loss						(1,678,985)
Dividends	-	-	-	-	(3,000,000)	(3,000,000)
Balance, December 31, 2000	2,000,000	-	22,443,828	2,346,463	42,363,798	69,154,089
Comprehensive loss:						
Net loss	-	-	-	-	(3,918,394)	(3,918,394)
Unrealized net loss on investments available for sale, net of deferred income taxes of \$(769,850)	-	-	-	(1,443,153)	-	(1,443,153)
Unrealized net gain on interest rate swap, net of deferred income taxes of \$174,850	-	-	-	375,922	-	375,922
Total comprehensive loss						(4,985,625)
Dividends	-	-	-	-	(250,000)	(250,000)
Balance, December 31, 2001	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ 22,443,828</u>	<u>\$ 1,279,232</u>	<u>\$ 38,195,404</u>	<u>\$ 63,918,464</u>

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

**Consolidated Statements of Cash Flows**

Years Ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Net income (loss)	\$ (3,918,394)	\$ 823,193
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,424,684	2,736,316
Provision for deferred income taxes	(2,191,378)	(1,862,431)
Provision for losses on accounts receivable	592,759	659,392
Minority interest in income of consolidated subsidiary	47,642	989
(Gain) loss on disposal of property and equipment	(372,712)	3,867
Loss on disposal of title plant records	96,480	4,618
Net realized investment (gains) losses	1,893,675	(3,448,518)
Change in assets and liabilities		
Accrued investment income	71,598	(29,628)
Receivable for title insurance premiums and fees	3,794,230	272,178
Refundable income taxes	1,469,932	(1,673,747)
Other assets	(4,841,486)	824,713
Title plant	(449,448)	(141,662)
Reserve for title losses and other claims	8,540,000	5,257,367
Accounts payable and accrued expenses	(54,003)	(1,185,266)
Deferred rent	374,262	(432,214)
Income taxes payable	(12,000)	24,469
Total adjustments	<u>11,384,235</u>	<u>1,010,443</u>
Net cash provided by operating activities	<u>7,465,841</u>	<u>1,833,636</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	65,194,263	75,155,885
Purchases of investments	(62,697,526)	(76,449,767)
Proceeds from disposition of property and equipment	1,091,207	8,181
Capital expenditures	(2,197,652)	(4,834,973)
Additions to title plant records	(110,000)	(915,928)
Proceeds from sales of certain assets	3,692,397	-
Net cash provided by (used in) investing activities	<u>4,972,689</u>	<u>(7,036,602)</u>
Cash flows from financing activities:		
Proceeds from notes payable	-	2,900,000
Payments on long-term debt	(9,409,823)	(613,432)
Dividends paid	(250,000)	(3,000,000)
Net cash used in financing activities	<u>(9,659,823)</u>	<u>(713,432)</u>
Net increase (decrease) in cash and cash equivalents	2,778,707	(5,916,398)
Cash and cash equivalents, beginning of year	<u>4,970,512</u>	<u>10,886,910</u>
Cash and cash equivalents, end of year	<u>\$ 7,749,219</u>	<u>\$ 4,970,512</u>
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes paid	<u>\$ -</u>	<u>\$ 3,001,086</u>
Interest paid	<u>\$ 896,317</u>	<u>\$ 1,142,629</u>

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

## Notes to Consolidated Financial Statements

Years Ended December 31, 2001 and 2000

### 1. 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 2001, The Fund conducted business in Florida, Illinois, Georgia, South Carolina, Minnesota, Arkansas, Alabama and Maryland. 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.

Attorneys' Title Guaranty Fund, Inc. (ATG, Inc.) provides real estate title insurance services and is approved as an underwriter in Colorado and Utah and acts as an agent for other title insurance companies in Minnesota. During 2001, The Fund sold its investment in ATG, Inc. to the Trust.

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

#### **Derivative Financial Instruments**

Effective January 1, 2001, 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 stockholder'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. The adoption of FAS 133 did not have a material effect on The Fund's consolidated financial statements.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2001 and 2000

### 1. Summary of Significant Accounting Policies – continued

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Attorneys' Title Insurance Fund, Inc. (The Fund) and its consolidated subsidiaries, National Attorneys' Title Assurance Fund, Inc. (NATAF, Inc.) and Atticus, Inc. All significant intercompany accounts and transactions have been eliminated.

#### *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, 2001 and 2000, 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 stockholder'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, commercial paper 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 \$24,926,751 and \$29,616,606 at December 31, 2001 and 2000, 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 of the related assets, 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

## Notes to Consolidated Financial Statements

Years Ended December 31, 2001 and 2000

### 1. Summary of Significant Accounting Policies – continued

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.

#### ***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 costs associated with settling all current and future claims. The reserve is not discounted. 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 estimated losses on accounts receivable based on historical loss experience.

#### ***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.

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**1. Summary of Significant Accounting Policies – continued**

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.

**2. Investments Available for Sale**

Investments available for sale at December 31, 2001 and 2000 were as follows:

	Amortized Cost	December 31, 2001 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
Debt securities, U.S.	\$ 8,373,527	\$ 287,026	\$ (885)	\$ 8,659,669
Debt securities, state and municipal	20,127,591	518,127	(83,084)	20,562,634
Corporate debt securities	23,925,861	1,010,791	(670,167)	24,266,485
Mortgage-backed securities	6,244,604	178,206	(1,011)	6,421,798
	<u>58,671,583</u>	<u>1,994,150</u>	<u>(755,147)</u>	<u>59,910,586</u>
Certificates of deposit	750,000	-	-	750,000
Equity securities:				
Common stock	24,650,725	3,850,840	(2,789,492)	25,712,073
Preferred stock	2,042,781	128,068	(202,351)	1,968,497
Mutual funds	4,038,021	178,062	(120,842)	4,095,241
	<u>30,731,527</u>	<u>4,156,970</u>	<u>(3,112,685)</u>	<u>31,775,811</u>
	<u>\$ 90,153,110</u>	<u>\$ 6,151,120</u>	<u>\$ (3,867,832)</u>	<u>\$ 92,436,397</u>

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**2. Investments Available for Sale – continued**

		December 31, 2000		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
Debt securities, U.S.	\$ 6,840,618	\$ 170,117	\$ –	\$ 7,010,735
Debt securities, state and municipal	25,911,774	488,259	–	26,400,033
Corporate debt securities	23,062,395	–	(320,023)	22,742,372
Mortgage-backed securities	10,606,991	145,760	–	10,752,751
	<u>66,421,778</u>	<u>804,136</u>	<u>(320,023)</u>	<u>66,905,891</u>
Certificates of deposit	<u>750,000</u>	<u>–</u>	<u>–</u>	<u>750,000</u>
Equity securities:				
Common stock	24,555,216	2,302,669	–	26,857,885
Preferred stock	3,324,540	538,887	–	3,863,427
Mutual funds	4,577,043	490,114	–	5,067,157
	<u>32,456,799</u>	<u>3,331,670</u>	<u>–</u>	<u>35,788,469</u>
	<u>\$ 99,628,577</u>	<u>\$ 4,135,806</u>	<u>\$ (320,023)</u>	<u>\$ 103,444,360</u>

Proceeds from sales of available for sale securities were \$60,550,381 and \$66,438,966 for 2001 and 2000, respectively. Resultant gross gains of \$4,933,571 and \$8,335,102 were realized in 2001 and 2000, respectively. Resultant gross losses of \$6,827,246 and \$4,886,584 were realized in 2001 and 2000, respectively.

The amortized cost and fair value of investment securities at December 31, 2001, by contractual maturity, are shown on the following page. 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.

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**2. Investments Available for Sale – continued**

	<b>Amortized Cost</b>	<b>Fair Value</b>
Debt securities:		
Due in one year or less	\$ 4,663,695	\$ 4,549,779
Due after one year through five years	21,225,478	21,841,991
Due after five years through ten years	17,347,976	17,815,468
Due in more than ten years	9,939,830	10,031,550
	<hr/> 53,176,979	<hr/> 54,238,788
Mortgage-backed securities	6,244,604	6,421,798
Common stock, preferred stock and mutual funds	30,731,527	31,775,811
	<hr/> \$ 90,153,110	<hr/> \$ 92,436,397
	<hr/> <hr/>	<hr/> <hr/>

Net investment income earned for the years ending December 31, 2001 and 2000 consists of the following:

	<b>2001</b>	<b>2000</b>
Interest:		
Debt and mortgage-backed securities	\$ 2,986,642	\$ 3,055,547
Certificates of deposit	40,585	108,364
Cash and cash equivalents	428,331	600,679
Other	28,005	1,474
Dividends on stocks	490,714	638,349
Gross investment income	<hr/> 3,974,277	<hr/> 4,404,413
Less investment fees	(690,877)	(674,400)
Net investment income	<hr/> \$ 3,283,400	<hr/> \$ 3,730,013
	<hr/> <hr/>	<hr/> <hr/>

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**3. Property and Equipment**

Property and equipment consist of the following at December 31, 2001 and 2000:

	<b>2001</b>	<b>2000</b>
Land	\$ 4,181,955	\$ 4,670,355
Land improvements	314,859	314,859
Buildings	9,014,401	9,126,223
Furniture, fixtures and equipment	9,213,647	9,032,843
Data processing equipment	19,864,221	18,642,476
Leasehold improvements	1,143,037	1,077,608
	<u>43,732,120</u>	<u>42,864,364</u>
Less accumulated depreciation	(28,184,096)	(26,762,642)
	<u>\$ 15,548,024</u>	<u>\$ 16,101,722</u>

The unamortized computer software costs included in data processing equipment were \$1,407,741 and \$792,170 at December 31, 2001 and 2000, respectively.

**4. Title Plant Records**

Title plant records consist of the following at December 31, 2001 and 2000:

	<b>2001</b>	<b>2000</b>
Title plant records acquired	\$ 2,126,495	\$ 2,126,495
Title plant records constructed	2,145,488	2,051,676
Title plant retroconversion, net of accumulated amortization of \$828,581 and \$982,102 at December 31, 2001 and 2000, respectively	2,443,127	1,804,380
	<u>\$ 6,715,110</u>	<u>\$ 5,982,551</u>

**5. Segregated Assets**

The following assets at December 31, 2001 and 2000 have been segregated for the statutory unearned premium reserve:

	<b>2001</b>	<b>2000</b>
Debt and mortgage-backed securities	\$ 51,368,667	\$ 53,590,166
Common stock	19,574,804	20,617,837
Preferred stock	1,968,497	3,863,427
Commercial paper	-	25,000
Money market funds	1,898,779	1,097,954
Cash	166,173	52,270
	<u>\$ 74,976,920</u>	<u>\$ 79,246,654</u>

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**5. Segregated Assets - continued**

Certificates of deposit in varying amounts totaling \$750,000, United States Treasury notes in varying amounts totaling \$635,000 and a United States Treasury money market account totaling \$50,000 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 and Other Claims**

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

	2001	2000
Balance at beginning of year	\$ 74,323,307	\$ 69,065,940
Incurred related to:		
Current year	18,384,118	15,895,417
Prior years	3,903,743	3,105,079
Total incurred	<u>22,287,861</u>	<u>19,000,496</u>
Paid related to:		
Current year	1,741,308	1,318,239
Prior years	12,006,553	12,424,890
Total paid	<u>13,747,861</u>	<u>13,743,129</u>
Sale of ATG, Inc. (See Note 13)	<u>(2,673,307)</u>	-
Balance at end of year	<u>\$ 80,190,000</u>	<u>\$ 74,323,307</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 increased \$3,903,743 and \$3,105,079 in 2001 and 2000, respectively, because of revisions of estimates of losses.

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**7. Notes Payable**

Notes payable at December 31, 2001 and 2000 consist of the following:

	2001	2000
Note payable to bank, monthly principal installments of \$41,667 through April 8, 2012, with interest payable monthly at LIBOR plus 85 basis points (2.8925% at December 31, 2001), collateralized by the headquarters building	\$ 5,166,667	\$ 5,666,667
Bank line of credit with maximum borrowings of \$10,000,000, principal due on demand with interest payable monthly at 90-day LIBOR plus 150 basis points (8.03% at December 31, 2000), repaid in December 2001 (See Note 13)	-	8,900,000
	<u>\$ 5,166,667</u>	<u>\$ 14,566,667</u>

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

Year ending December 31,	
2002	\$ 500,000
2003	500,000
2004	500,000
2005	500,000
2006	500,000
Thereafter	2,666,667
	<u>\$ 5,166,667</u>

Interest expense, including interest on capital leases totaled \$862,437 and \$1,129,849 in 2001 and 2000, respectively.

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**8. 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 interest rate 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, 2001 was as follows:

<b>Pay Rate</b>	<b>Notional Amount</b>	<b>Maturity</b>	<b>Receive Rate<sup>(1)</sup></b>	<b>Fair Value</b>
6.35%	\$ 2,567,000	August 9, 2007	2.04%	\$ (201,072)

<sup>(1)</sup> 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 agreements are recognized in stockholder'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.

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

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**9. Reinsurance**

The Fund can retain liabilities in the approximate amount of \$23,777,800 based on statutory limits, but has chosen to set its primary retention limit at \$10,000,000. Exposure in excess of the primary retention limit is reinsured with other companies. Retention limits when The Fund provides coinsurance or reinsurance for other companies shall not be in excess of \$23,777,800 for individual policies as of December 31, 2001. Reinsurance transactions have historically not been material.

**10. Employee Benefit Plans**

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 \$2,537,314 and \$2,654,603 for 2001 and 2000, respectively.

**11. Income Taxes**

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

	2001	2000
Gross deferred tax assets	\$ 10,298,952	\$ 8,406,355
Gross deferred tax liabilities	(2,072,834)	(3,070,615)
	<hr/>	<hr/>
Net deferred tax asset	\$ 8,226,118	\$ 5,335,740
	<hr/> <hr/>	<hr/> <hr/>

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

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**11. Income Taxes - continued**

reserves; investments in marketable equity securities; property and equipment; deferred rent; certain accrued expenses; and asset valuation reserves.

The provision (benefit) for income tax expense for the years ended December 31, 2001 and 2000 consists of the following:

	<b>2001</b>	<b>2000</b>
Current:		
Federal	\$ (532,052)	\$ 1,277,375
State	6,259	121,731
	<u>(525,793)</u>	<u>1,399,106</u>
Deferred:		
Federal	(1,829,773)	(1,209,316)
State	(361,605)	(653,115)
	<u>(2,191,378)</u>	<u>(1,862,431)</u>
	<u><u>\$ (2,717,171)</u></u>	<u><u>\$ (463,325)</u></u>

Income tax (benefit) expense for the years ended December 31, 2001 and 2000 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>2001</b>		<b>2000</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Income tax (benefit) expense at maximum statutory rate	\$ (2,247,547)	(35.00)%	\$ 122,691	34.00%
State income tax, net of federal tax benefit	(69,607)	(1.08)%	(313,639)	(86.92)%
Exempt investment income	(542,527)	(8.45)%	(481,457)	(133.42)%
Permanent differences	121,575	1.89 %	116,949	32.41%
Other, net	20,935	0.11 %	92,131	25.53%
	<u><u>\$ (2,717,171)</u></u>	<u><u>(42.53)%</u></u>	<u><u>\$ (463,325)</u></u>	<u><u>(128.40)%</u></u>

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**12. Leases**

The Fund leases office facilities under noncancelable operating leases extending through 2010. 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, 2001, by year and in the aggregate, under operating leases having initial or remaining noncancelable lease terms in excess of one year are as follows:

Year ending December 31,	<b>Operating Leases</b>
2002	\$ 5,530,908
2003	3,878,799
2004	2,772,424
2005	2,179,471
2006	1,892,521
Thereafter	3,594,821
Total minimum payments	<u>\$ 19,848,944</u>

Total rent expense under all operating leases, which is recognized on a straight-line basis over the terms of the leases, amounted to \$6,383,084 and \$6,120,654 in 2001 and 2000, respectively.

At December 31, 2001, The Fund had available a bank lease line of credit of \$3,000,000. Draws against the lease line of credit are subject to an evaluation of the equipment to be leased. The lease terms are determined individually for each lease transaction. Principal and interest on draws are payable monthly.

At December 31, 2001, there was \$322,373 outstanding against the lease line of credit under operating lease agreements. At December 31, 2001, there was \$0 outstanding against the lease line of credit under capital lease agreements, leaving \$2,677,627 available to be drawn by The Fund under the lease line of credit. These amounts are included in the applicable future minimum lease payment tables presented above. The lease line of credit is subject to review annually by the bank.

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2001 and 2000

**13. Related Party Transactions**

In December 2001, The Fund entered into the following transactions at book value which approximated the estimated fair value of the related assets with the Trust:

- sold \$4,807,603 in estimated premium receivables
- sold its investment in ATG, Inc. for \$980,729 and
- sold its Enterprise Resource Planning (ERP) financial system for \$2,707,577

The Trust then entered into a lease agreement with The Fund for the utilization of the ERP financial system. The lease agreement commences on January 1, 2002 for an initial term of three years with a monthly payment of \$88,848.

The proceeds from the sale of these assets were used to pay off the outstanding bank line of credit held by The Fund (See Note 7).

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

Stockholder'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:

	2001	2000
Stockholder's Equity – Statutory reporting basis (Surplus as regards to policyholders)	\$ 47,555,600	\$ 46,822,474
Add (deduct) adjustments to conform with GAAP:		
Statutory premium reserve	62,611,642	55,483,148
Known claims reserves	17,346,181	16,031,600
Title plant loss reserve	283,250	35,197
GAAP basis reserve for title losses for The Fund	(80,000,000)	(71,500,000)
Assets not admitted	13,181,321	15,342,126
Debt securities market adjustment	1,239,020	408,180
Deferred rent	(695,989)	(361,814)
Deferred income taxes	8,241,818	5,485,940
Refundable income taxes	1,279,646	2,553,708
Tax receivable, federal	(5,240,380)	(514,116)
Tax receivable, state	(155,524)	(34,675)
Accrued expenses	135,565	257,859
Other, net	(432,417)	(237,260)
Net effect of consolidation	(1,431,269)	(618,278)
Stockholder's Equity – GAAP basis	<u>\$ 63,918,464</u>	<u>\$ 69,154,089</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.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2001 and 2000

### 15. Contingencies

#### *Dividends*

The members of Attorneys' Title Insurance Fund (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 \$250,000 and \$3,000,000 to the Trust during 2001 and 2000, respectively.

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 Fund's Board. No payouts of trust capital accounts have been declared or paid under this plan.

## KEY OFFICERS, TRUSTEES, AND DIRECTORS

### KEY OFFICERS

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

### TRUSTEES AND DIRECTORS

Robert F. Sauer, Director Emeritus

W. Henry Barber, Jr., Director Emeritus

Michael A. Pyle - Chairman

Daniel L. Adams

Jerry W. Allender

Lewis Ansbacher

William G. Davis, Jr.

Richard J. Dungey

George T. Dunlap, III

Russell D. Gautier

Peter J. Gavina

Charles S. Isler, III

Richard W. Lyons

Melissa J. Murphy

Douglas R. Neu

Del G. Potter

Stephen H. Reynolds

James L. Ritchey

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.

