AMERICAN NATIONAL FINANCIAL INC
Form 10-Q
November 02, 2001

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 September 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, 7,081,354 shares as of October 29, 2001

FORM 10-Q

QUARTERLY REPORT

Quarter Ended September 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
Financial Officer (Principal Financial
and Accounting Officer) and Director

Date: November 2, 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)

ASSETS

	SEPTEMBER 3 2001 (UNAUDITED
Current assets:	
Cash and cash equivalents	$ 10,027
Short-term investments, at cost, which approximates fair market value	2,590
Accrued investment interest	271
Trade receivables, net of allowance for doubtful accounts of $2,679 in 2001 and $2,118 in 2000	3,510
Notes receivables, net	1,803
Deferred tax asset	2,733
Prepaid expenses and other current assets	1,424
Total current assets	22,358
Investment securities available for sale, at fair market value	17,684
Property and equipment, net	7,803
Title plants	2,699
Deposits with the Insurance Commissioner	133
Intangibles, net of accumulated amortization of $1,887 in 2001 and $1,471 in 2000	11,361
Total assets	$ 62,038

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Accounts payable and other accrued expenses	$ 12,379
Customer advances	4,016
Current portion of long-term debt	563
Current portion of obligations under capital leases with affiliates	100
Current portion of obligations under capital leases with non-affiliates	143

Reserve for claim losses	2,616
Income tax payable	2,199
Due to affiliate	2,283
Total current liabilities	24,299
Long-term debt	3,014
Obligations under capital leases with affiliates	748
Obligations under capital leases with non-affiliates	944
Total liabilities	29,005
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, 8,365,440 in 2001 and 8,183,931 in 2000	--
Additional paid in capital	27,057
Retained earnings	11,865
Accumulated other comprehensive income (loss)	539
Less treasury stock, 1,336,637 shares in 2001 and 15,257 shares in 2000, at cost	(6,428)
Total shareholders' equity	33,033
Total liabilities and shareholders' equity	$ 62,038

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 SEPTEMBER 30,		NINE M SEPT
	2001	2000	2001
	(UNAUDITED)		(U
Revenues:			
Net title service revenue -- related party	$18,670	$11,201	$53,444
Escrow fees	7,844	5,600	23,335
Ancillary service fees	4,285	3,625	12,620
Investment income	338	248	1,913
Other revenue	2,386	888	5,795
Total revenues	33,523	21,562	97,107
Expenses:			
Personnel costs	18,505	13,043	53,238
Other operating expenses includes $851 and $921			

with affiliate for the three-month periods ended September 30, 2001 and 2000, respectively, and $2,914 and $3,013 with affiliate for the nine-month periods ended September 30, 2001 and 2000, respectively	8,393	5,728	23,629
Title plant rent and maintenance	1,733	1,407	5,748
Total expenses	28,631	20,178	82,615
Earnings before income taxes	4,892	1,384	14,492
Income taxes	2,055	567	5,991
Net earnings	$ 2,837	$ 817	$ 8,501
Basic earnings per share	$ 0.40	$ 0.10	$ 1.11
Weighted average shares outstanding, basic basis	7,023	8,105	7,654
Diluted earnings per share	$ 0.36	$ 0.10	$ 1.02
Weighted average shares outstanding, diluted basis	7,957	8,105	8,319
Cash dividends per share, actual	$ 0.125	$ 0.100	$ 0.325
Cash dividends per share after giving retroactive effect to 10% stock dividend	$ 0.125	$ 0.180	$ 0.315

See accompanying notes to condensed consolidated financial statements

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(UNAUDITED)		(UNAUDITED)	
Net earnings	$ 2,837	$ 817	$ 8,501	$ 1,128
Other comprehensive income - Unrealized gain (loss) on investment, securities available for sale (1) ...	337	(20)	675	(391)
Comprehensive earnings	$ 3,174	$ 797	$ 9,176	$ 737

(1) Net of income tax expense (benefit) of $198 and ($12), and $399 and ($230) for the three-month and nine-month periods ended September 30, 2001 and 2000, respectively.

See accompanying notes to condensed consolidated financial statements

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

	COMMON STOCK		TREASURY STOCK		ADDITIONAL PAID IN CAPITAL	RETAINE EARNING
	SHARES	AMOUNT	SHARES	AMOUNT		
BALANCE, DECEMBER 31, 2000 .	8,184	$ --	(15)	$ (40)	$22,744	$ 9,40
Exercise of stock options, including associated tax benefit	98	--	--	--	356	-
Unrealized gain on investment securities available for sale ..	--	--	--	--	--	-
Effect of 10% stock dividend	--	--	--	--	3,739	(3,73
Cash dividends ($0.315 per share)	--	--	--	--	--	(2,30
Issuance of shares	83	--	--	--	218	-
Purchase of treasury shares	--	--	(1.322)	(6,388)	--	-
Net earnings	--	--	--	--	--	8,50
BALANCE, SEPTEMBER 30, 2001	8,365	$ --	(1.337)	$(6,428)	$27,057	$ 11,86

See accompanying notes to condensed consolidated financial statements

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

NINE MONTHS ENDED
SEPTEMBER 30,

	2001	2000
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 8,501	$ 1,128
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	2,023	1,874
(Gain) loss on sale of investments	(1,004)	139
(Gain) loss on disposal of property and equipment	14	(194
Changes in:		
Accounts receivables, net	415	(833
Interest receivable	(126)	71
Tax benefit associated with the exercise of stock options	81	--
Prepaid expenses and other assets	(15)	(52
Income taxes receivable and deferred income taxes	1,300	2,147
Accounts payable and other accrued expenses	6,244	53
Reserve for claim loss	185	51
Due (from) to affiliates	(11)	96
Customer advances	929	1,043
Total cash provided by operating activities	18,536	5,523
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,092)	(1,176
Proceeds from sale of property and equipment	--	194
Additions to notes receivable	(214)	(975
Collections on notes receivable	552	117
Purchase of investment securities	(7,342)	--
Proceeds from sales of investment securities	1,870	4,992
Purchase of short-term investment	(2,175)	--
Proceeds from short term investments	--	779
Acquisition of subsidiaries, net of cash received	--	(3,140
Total cash provided by (used in) investing activities	(9,401)	791
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	218	664
Repayment of long-term debt	(506)	(525
Payments of capital lease obligations	(188)	179
Dividends paid	(2,169)	(2,199
Exercise of stock options	275	--
Repurchase of capital stock	(6,188)	--
Total cash used in financing activities	(8,558)	(1,881
Increase in cash and cash equivalents	577	4,433
Cash and cash equivalents at the beginning of period	9,450	3,361
Cash and cash equivalents at end of period	$ 10,027	$ 7,794

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)

	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
	(UNAUDITED)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year:		
Interest	$ 328	$ 125
Income taxes	5,050	42
PURCHASE OF SUBSIDIARIES:		
Tangible assets acquired at fair value excluding cash received	$ --	$ 5,750
Cost in excess of net assets acquired	--	
Liabilities assumed at fair value	--	(2,610)
Net cash used to acquire business	$ --	$ 3,140
Non-cash investing activities:		
Dividend declared and unpaid	$ 881	$ 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 auditing standards generally accepted in the United States of America 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 -- Cash Dividend

On September 26, 2001, the Company's Board of Directors declared a quarterly cash dividend of $.125 per share, a 25% increase over previous quarterly dividends, payable on October 22, 2001, to stockholders of record on October 8, 2001.

Note C -- 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 D -- 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 SEPTEMBER 30, 2001	THREE MONTHS ENDED SEPTEMBER 30, 2000
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Net earnings, basic and diluted basis	$2,837	$ 817
Weighted average shares outstanding during the period, basic basis	7,023	8,105
Plus: Common stock equivalent shares assumed from conversion of options	934	--
Weighted average shares outstanding during the period, diluted basis	7,957	8,105
Basic earnings per share	$ 0.40	$ 0.10
Diluted earnings per share	$ 0.36	$ 0.10

NOTE E -- Share and Per Share Restatement

On May 24, 2001, the Company declared a 10% stock dividend to shareholders of record as of June 7, 2001, payable on June 21, 2001. The fair value of the additional shares of common stock issued in connection with the stock dividend was credited to additional paid in capital and a like amount was charged to retained earnings.

All data with respect to earnings per share, dividends per share and share information, including price per share where applicable, in the Condensed Consolidated Financial Statements has been retroactively adjusted to reflect the stock dividend.

NOTE F -- 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 amortization expense for the nine months ended September 30, 2001 was $416,000.

NOTE G -- Settlement Agreement

During the third quarter 2001, American National Financial, Inc. entered into a settlement agreement relating to a prior acquisition, resulting in a goodwill reduction in the amount of $620,000, thereby reducing intangible assets on the balance sheet.

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.

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 third quarter ended September 30, 2001 increased 55.5% to $33.5 million from $21.6 million in the comparable 2000 period. Total revenues for the nine-month period ended September 30, 2001 increased 61.4% to $97.1 million from $60.2 million for the same prior year period. The increase in total revenues for the three-month and nine-month periods is largely a result of higher refinance activities related to interest rate decreases beginning in late 2000, caused by actions taken by the Federal Reserve Board. These actions resulted in bringing interest rates to their lowest levels in approximately two years, which is a 400 basis point reduction since January 1, 2001.

Net Title Service Revenue. Net title service revenue increased $7.5 million, or 66.7% to $18.7 million from $11.2 million, and $21.3 million or 66.3% to $53.4 million from $32.1 million, for the three-month and nine-month periods ended September 30, 2001, respectively, this is the result of increases in both closed resale orders and refinance orders. In both the three and nine-month periods ended September 30, 2001 the average fee per file decreased to $948 and $913 compared with $1,013 and $962 in the comparable 2000 period. The fee per file decrease is consistent with the mix of title orders closing in a refinance driven market compared to the higher fee per file resale business.

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

Quarter	Orders Opened	Orders Closed
First Quarter 2001	59,449	26,202
Second Quarter 2001	45,509	33,753
Third Quarter 2001	41,353	30,474
First Quarter 2000	27,178	16,651
Second Quarter 2000	26,690	17,802
Third Quarter 2000	25,491	17,462

Escrow Fees. Escrow fees for the third quarter of 2001 increased $2.2 million, or 40.1% to $7.8 million. For the nine months ended September 30, 2001, escrow fees increased $7.2 million, or 44.6% to $23.3 million. 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.

Ancillary Service Fees. Ancillary service fees relate partly to the level and mix of business, as well as the performance of certain ancillary service businesses. Ancillary service fees for the three-months ended September 30, 2001 increased $660,000, or 18.2% to $4.3 million from $3.6 million in the comparable 2000 period. The increase in the three-month period ended September 30, 2001 is attributed to the Company's strategy to grow its ancillary service business. Ancillary service fees for the nine-months ended September 30, 2001, increased $3.1 million, or 33.1% to $12.6 million from $9.5 million for the 2000 period.

The Company continues to expand its ancillary service businesses by leveraging its core title and escrow businesses and its national presence.

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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 three months ended September 30, 2001 increased $90,000 or 36.3% to $338,000 from $248,000 in the corresponding 2000 period. The increase in investment and interest income earned in the three months ended September 30, 2001 primarily results from an increase in average invested assets. Investment and interest income for the nine months ended September 30, 2001 increased $1.1 million, or 144%, to $1.9 million from $765,000 in the same 2000 period. The $1.1 million increase resulted from the realized gain on sale of equity securities.

Other Revenue. Other revenue for the three months ended September 30, 2001 and 2000 increased $1.5 million, or 168.7% to $2.4 million from $888,000. Other revenue for the nine months ended September 30, 2001 and 2000 increased $4.2 million, or 253.6% to $5.8 million from $1.6 million in the comparable 2000 period. The increase in the three-month and nine-month periods ended September 30, 2001 and 2000 is attributed to the Company's strategy to expand its National agency presence.

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. These expenses fluctuate with the level of orders opened and closed and the mix of revenue. Personnel costs, as a percentage of total revenue, exclusive of investment income, decreased to 55.8% for the three months ended September 30, 2001 compared with 61.2% for the corresponding period in 2000. The percentage decrease is the result of the Company's ability to handle increased refinance activity without significant increase in staffing. For the nine months ended September 30, 2001 and 2000, personnel expenses as a percentage of total revenue, exclusive of investment income, decreased to 55.9% from 63.2%.

Other Operating Expenses. Other operating expenses consist of facilities expenses, escrow losses, postage and courier services, data processing expense, general insurance, trade and notes receivable allowance and depreciation. Other operating expenses as a percentage of total revenue, exclusive of investment income, decreased to 25.3% for the three months ended September 30, 2001 compared with 26.9% for the corresponding 2000 period. Other operating expenses as a percentage of total revenue, exclusive of investment income, decreased to 24.8% for the nine months ended September 30, 2001 compared with 28.1% for the corresponding 2000 period. 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 $1.7 million and $1.4 million for the three-month periods ended September 30, 2001 and 2000, respectively, and $5.7 million and $4.0 million for the nine-month periods ended September 30, 2001 and 2000, respectively. Title plant rent and maintenance expense decreased slightly as a percentage of total revenue, exclusive of investment income, to 5.2% from 6.6% in the three-month periods ended September 30, 2001 and 2000, respectively, and to 6.0% and 6.7% of total revenues, exclusive investment income, for the nine-month periods ended September 30, 2001 and 2000. The percentage decrease in both the three and nine-month periods in title plant expense is primarily a result of renegotiations with several providers in California and Arizona resulting in consistent cost reductions for the Company.

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Income Taxes. Income taxes for the three-months ended September 30, 2001 and 2000, as a percentage of earnings before income taxes was 42.0% and 41.0%. Income taxes for the nine-months ended September 30, 2001 and 2000, as a percentage of earnings before income taxes was 41.3% and 41.0%. Income taxes 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 earnings, 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 business.

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 is not restricted by state regulations or banking authorities in their ability to pay dividends and make distributions.

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 September 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 equivalents.

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 1. In the ordinary course of business, the Company is involved in various pending and threatened litigation matters related to its operations, some of which include claims for punitive or exemplary damages. Management believes that no actions depart from customary litigation incidental to the business of the Company and that the resolution of all such litigation will not have a material adverse effect on the Company.

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

(a) Exhibits:

10.20 Employment Agreement by and between American National Financial, Inc. and Carl A. Strunk, as of August 14, 2001.

(b) Reports on Form 8-K:

None.

EXHIBIT INDEX

10.20 Employment Agreement by and between American National Financial, Inc. and Carl A. Strunk, as of August 14, 2001.