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AMERICAN NATIONAL FINANCIAL INC  
Form 10-Q  
May 14, 2001

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

FORM 10-Q

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 March 31, 2001

Commission File Number 0-24961

AMERICAN NATIONAL FINANCIAL, INC.  
(Exact name of registrant as specified in its charter)

California  
-----  
(State or other jurisdiction of  
incorporation or organization)

33-0731548  
-----  
(I.R.S. Employer  
Identification Number)

1111 E. Katella Avenue, Suite 220, Orange, California  
-----  
(Address of principal executive offices)

92867  
-----  
(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  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, 7,247,570 shares as of May 9, 2001

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FORM 10-Q

QUARTERLY REPORT

Quarter Ended March 31, 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: May 14, 2001

## 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)

	MARCH 31, 2001	DECEMBER 31, 2000
	-----	-----
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 12,189	\$ 9,450
Short-term investments, at cost, which approximates fair market value .....	515	415
Accrued investment interest .....	175	145
Trade receivables, net of allowance for doubtful accounts of \$2,171 in 2001 and \$2,118 in 2000 .....	4,520	3,925
Notes receivables, net .....	2,088	2,141
Deferred tax asset .....	2,967	3,182
Prepaid expenses and other current assets .....	972	819
	-----	-----
Total current assets .....	23,426	20,077
Investment securities available for sale, at fair market value .....	10,071	10,533
Property and equipment, net .....	7,633	7,502
Title plants .....	2,699	2,699
Deposits with the Insurance Commissioner .....	133	133
Intangibles, net of accumulated amortization of \$1,611 in 2001 and \$1,471 in 2000 .....	12,257	12,397
	-----	-----
Total assets .....	\$ 56,219	\$ 53,341
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued expenses .....	\$ 6,328	\$ 5,998
Customer advances .....	3,755	3,087
Current portion of long-term debt .....	557	555
Current portion of obligations under capital leases with affiliates .....	109	113
Current portion of obligations under capital leases with non-affiliates .....	138	135
Reserve for claim losses .....	2,491	2,431
Income tax payable .....	2,633	1,348
Due to affiliate .....	2,201	2,294
	-----	-----
Total current liabilities .....	18,212	15,961

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Long-term debt .....	3,118	3,528
Obligations under capital leases with affiliates ...	799	823
Obligations under capital leases with non-affiliates	1,016	1,052
	-----	-----
Total liabilities .....	23,145	21,364
Shareholders' equity:		
Preferred stock, no par value; authorized 5,000,000 shares; issued and outstanding, none ...	--	--
Common stock, no par value; authorized, 50,000,000 shares; issued and outstanding, 7,262,403 in 2001 and 7,375,224 in 2000 .....	--	--
Additional paid in capital .....	22,991	22,744
Retained earnings .....	10,916	9,409
Accumulated other comprehensive income (loss) .....	190	(136)
Less treasury stock, 262,403 shares in 2001 and 13,870 shares in 2000, at cost .....	(1,023)	(40)
	-----	-----
Total shareholders' equity .....	33,074	31,977
	-----	-----
Total liabilities and shareholders' equity ..	\$ 56,219	\$ 53,341
	=====	=====

See accompanying notes to condensed consolidated financial statements

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AMERICAN NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	-----	-----
Revenues:		
Net title service revenue -- related party .....	\$ 14,756	\$ 9,688
Escrow fees .....	6,841	4,857
Other service charges .....	5,415	2,865
Investment income .....	1,286	279
	-----	-----
Total revenues .....	28,298	17,689
	-----	-----
Expenses:		
Personnel costs .....	15,887	11,817
Other operating expenses includes \$935,000 and \$969,000 with affiliate for the three-month periods ended March 31, 2001 and 2000 .....	6,830	5,302
Title plant rent and maintenance .....	1,751	1,133
	-----	-----
Total expenses .....	24,468	18,252
	-----	-----

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Earnings (loss) before income taxes .....	3,830	(563)
Income tax .....	1,570	(231)
	-----	-----
Net earnings (loss) .....	\$ 2,260	\$ (332)
	=====	=====
Basic earnings per share .....	\$ 0.30	\$ (0.05)
	=====	=====
Weighted average shares outstanding, basic basis .	7,458,432	7,228,614
	=====	=====
Diluted earnings per share .....	\$ 0.29	\$ (0.05)
	=====	=====
Weighted average shares outstanding, diluted basis	7,836,509	7,228,614
	=====	=====
Cash dividends per share .....	\$ .10	\$ .10
	=====	=====

See accompanying notes to condensed consolidated financial statements

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	-----	-----
Net earnings (loss) .....	\$ 2,260	\$ (332)
Other comprehensive income -		
Unrealized gain on investment securities available for sale(1) .....	570	7
Less reclassification of realized gain included in net taxes, net of tax ....	(244)	--
	-----	-----
Comprehensive earnings (loss) .....	\$ 2,586	\$ (325)
	=====	=====

-----  
 (1) Net of income tax expense of \$212 and \$6, for the three-months ended  
 March 31, 2001 and 2000, respectively.

See accompanying notes to condensed consolidated financial statements

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AMERICAN NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings (loss) .....	\$ 2,260	\$ (332)
Adjustments to reconcile net earnings to cash provided by (used in) operating activities:		
Depreciation and amortization .....	686	588
(Gain) loss on sale of investments .....	(1,004)	103
Loss on sale of property and equipment .....	--	1
Loss on disposal of property and equipment .....	14	--
Changes in:		
Accounts receivables, net .....	(595)	(57)
Interest receivable .....	(30)	37
Prepaid expenses and other assets .....	(57)	163
Income taxes receivable (payable) and deferred income taxes .....	1,500	(169)
Accounts payable and other accrued expenses .....	404	(1,683)
Reserve for claim loss .....	60	28
Due from affiliates .....	(93)	(69)
Customer advances .....	668	105
	3,813	(1,285)
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment .....	(861)	(338)
Additions to notes receivable .....	(131)	(718)
Collections on notes receivable .....	184	2
Proceeds from sales of investment securities .....	1,792	4,853
Purchase of investment securities .....	--	(20)
Purchase of short-term investments .....	(100)	--
Proceeds from sale of property and equipment .....	--	1
Acquisition of subsidiaries, net of cash received .....	--	(2,747)
	884	1,033
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt .....	(408)	(9)
Proceeds from issuance of common stock .....	247	161
Payments of capital lease obligations .....	(61)	(47)
Dividends paid .....	(753)	(725)
Repurchase of capital stock .....	(983)	--
	(1,958)	(620)
Increase (decrease) in cash and cash equivalents .....	2,739	(872)
Cash and cash equivalents at the beginning of period .....	9,450	3,361

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Cash and cash equivalents at end of period .....	\$ 12,189	\$ 2,489
	=====	=====

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)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year:		
Interest .....	\$118	\$ 86
Income taxes .....	286	--
PURCHASE OF SUBSIDIARIES:		
Tangible assets acquired at fair value		
excluding cash received .....	\$ --	\$ 729
Cost in excess of net assets acquired .....	--	4,905
Liabilities assumed at fair value .....	--	(750)
	----	-----
Net cash used to acquire business .....	\$ --	\$ 4,884
	----	-----
Non-cash investing activities:		
Dividend declared and unpaid .....	\$753	\$ 715

See accompanying notes to condensed consolidated financial statements

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Notes to Condensed Consolidated Financial Statements

Note A - Basis of Financial Statements

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

Note B - Dividends

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On March 16, 2001, the Company's Board of Directors declared a quarterly cash dividend of \$.10 per share, payable on April 10, 2001, to stockholders of record on March 27, 2001.

### Note C - Stock Repurchase Program

During the quarter ended March 31, 2001, the Company purchased 248,533 shares in the amount of \$983,000 at an average price of \$3.96. The total amount of shares purchased pursuant to the Stock Repurchase Program was 262,403 shares in the amount of \$1,023,000 at the average price of \$3.90.

### 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 quarter ended March 31, 2001 increased 60.0% to \$28.3 million from \$17.7 million in the comparable 2000 period. Beginning in late 2000 interest rate decreases caused by actions taken by the Federal Reserve Board resulted in a significant increase in refinancing and resale transactions, which resulted in the increase of the Company's order count and premium volume.

Net Title Service Revenue. Net title service revenue increased \$5.1 million or 52.3% to \$14.8 million from \$9.7 million for the comparable 2000 period. The increase in net title service revenue for the first quarter ended March 31, 2001 is consistent with the current real estate environment and the increase in opened title orders. The average fee per file decreased to \$996 in 2001 compared to \$1,017 in the comparable 2000 period. The fee per file decrease is indicative of a change in the mix of title orders closing. Average refinance fees per file are less than average resale fees per file. Gross title premiums for quarter ended March 31, 2001 were \$17.4 million compared to \$11.0 million for the corresponding 2000 period.

Escrow Fees. Revenues from escrow fees increased by \$2.0 million or 40.8% to \$6.8 million in the first quarter of 2001 from \$4.9 million in the comparable 2000 period. Escrow fees are primarily related to title insurance activity generated by the Company's direct operations. The increase is primarily the result of stronger market conditions in resale and refinance activity, recent interest rate decreases and the resultant increase in closed title orders.

Other Service Charges. Other service charges were \$5.4 million for the quarter



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ended March 31, 2001 compared to \$2.9 million for comparable 2000 period, an increase of \$2.6 million or 89.0%. The fluctuation in other fees and revenues are a result of the level and mix of business related to the increase in closed title orders. The Company's strategy has been to strengthen the ancillary service businesses through acquisitions. The Company anticipates leveraging its core title and escrow businesses and national presence to successfully expand its ancillary service businesses.

**Investment Income.** Investment and interest income are primarily a function of securities markets and interest rates. The Company strengthened its balance sheet with the acquisition of National Title Insurance of New York, Inc. ("National") and shifted the emphasis to a fixed income portfolio. Investment income increased \$1.0 million, or 360.9% to \$1.3 million compared to \$279,000 in the corresponding 2000 period. The significant increase relates to a gain of \$1.0 million during the quarter ended March 31, 2001 from the sale of a block of equity securities at the quoted market price.

The Company's operating expenses consist primarily of personnel, other operating expenses and title plant rent and maintenance 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. As a percentage of total revenue, exclusive of investment income, personnel costs decreased to 58.8% for the three-month periods ended March 31, 2001 compared to 67.9% for the corresponding period in 2000. Personnel costs totaled \$15.9 million and \$11.8 million for the three-month periods ended March 31, 2001 and 2000, respectively. These costs fluctuate with the level of orders opened and closed and the mix of revenue. Personnel expenses have decreased as a percentage of total revenue due to cost controls implemented by the company. The quarter to quarter increase in personnel costs is a result of the Company's efforts to maintain appropriate personnel levels and costs relative to the volume and mix of business and revenues. The Company continues to monitor the prevailing market conditions and attempts to respond as necessary.

**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 allowances and depreciation. Other operating expense decreased as a percentage of total revenue, exclusive of investment income, to 25.3% in the three-month periods ended March 31, 2001, compared to 30.5% for the 2000 corresponding period. Other operating expenses totaled \$6.8 million and \$5.3 million, for the three-month periods ended March 31, 2001 and 2000, respectively. In response to market conditions, the Company implemented aggressive cost control programs in order to maintain operating expenses consistent with levels of revenue; however, certain fixed costs are incurred regardless of revenue levels, resulting in year to year percentage fluctuations. The Company continues to review operating expenses and will evaluate expenses relative to existing and projected market conditions.

**Title Plant Rent and Maintenance Expense.** Title plant rent and maintenance expense totaled \$1.8 million and \$1.1 million for the three-month periods ended March 31, 2001 and 2000, respectively. Title plant rent and maintenance expense remained consistent as a percentage of total revenue, exclusive of investment income, at 6.5% for the three-month periods ended March 31, 2001 and 2000, respectively. The year to year consistency in title plant expense is primarily a result of various contract negotiations within several counties in California and Arizona and the centralization of plant operations resulting in significant cost reductions for the Company.

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Income taxes (benefit) for the three-month periods ended March 31, 2001 and 2000, as a percentage of earnings before income taxes were 41.0% and (41.0%), respectively. Income taxes (benefit) as a percentage of earnings before income taxes remains consistent, however, any future fluctuations could be attributable to the effect of state income taxes on the Company's primary subsidiary the wholly-owned underwritten title company and the ancillary service companies; a change in the amount and the characteristics of net income, operating income versus investment income; and the tax treatment of certain items.

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### Liquidity and Capital Resources

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

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

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. 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 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

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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.

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## Part II: OTHER INFORMATION

### Item 2. Changes in Securities

None.

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

#### (a) Exhibits:

None.

#### (b) Reports on Form 8-K:

None.

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