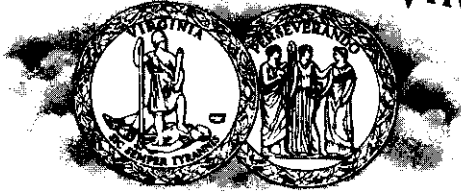


**ASSOCIATION EXAMINATION
ON
SOUTHERN TITLE INSURANCE CORPORATION
Richmond, Virginia
as of
December 31, 2006**

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Southern Title Insurance Corporation as of December 31, 2006, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 20th day of February, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
January 10, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (E) Committee
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Honorable Julie M. McPeak
Secretary-Southeastern Zone, NAIC
Executive Director
Kentucky Office of Insurance
Frankfort, Kentucky

Dear Commissioners:

Pursuant to your instructions and in accordance with § 38.2-1317 of the Code of Virginia, a National Association of Insurance Commissioners (NAIC) Association Examination of the records and affairs of the

SOUTHERN TITLE INSURANCE CORPORATION
Richmond, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation is a title insurance company licensed pursuant to Chapter 46 of Title 38.2 of the Code of Virginia. An examination was last performed as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006, and was conducted by Examiners from the Virginia State Corporation Commission's Bureau of Insurance (Bureau) representing the NAIC's Southeastern zone.

HISTORY

The Corporation was issued a charter on September 22, 1925 as the Virginia Realty Guarantee Title Corporation. The Corporation was dissolved on December 19, 1935 through a voluntary surrender of its charter. On December 15, 1938, the

Corporation was revived by applying for a new charter for the purpose of continuing the existence and powers of the dissolved Corporation. On May 12, 1948, the Corporation's name was changed to Southern Title Insurance Corporation.

On November 21, 1984, the Corporation was purchased by Investors Southern Corporation (ISC), a wholly owned subsidiary of Investors Savings and Loan Association (ISLA). On December 13, 1991, ISLA was placed into receivership by the Office of Thrift Supervision and put under the control of the Resolution Trust Corporation, which also assumed ownership of ISC.

On August 10, 1992, all of the issued and outstanding shares of ISC were acquired by Cedar Incorporated, which subsequently changed its name to Southern Capital Corporation (Southern) in 1993.

On April 3, 1996, the Corporation's board of directors amended the Articles of Incorporation to change the par value of its outstanding common stock from \$5 to \$4.76 per share. This resulted in the common capital stock account being decreased to \$1,001,123 and the gross paid in and contributed surplus being increased to \$4,527,633.

On April 30, 1996, Southern entered into an acquisition and merger agreement with Firstmark Corp. (Firstmark), a Maine corporation. Pursuant to the agreement, Southern was merged into Southern Capital Acquisition Corp., a Virginia corporation and a wholly owned subsidiary of Firstmark. This transaction was approved by the Bureau on May 14, 1996 and became effective on June 7, 1996.

On March 5, 1999, Old Guard Group, Inc. (OGGI), a Pennsylvania holding company, purchased all of the stock of ISC from Firstmark. OGGI paid \$6.75 million plus 25% of the pre-tax net income that ISC and its subsidiaries earned over the next three years. The sale was approved by the Commission on January 27, 1999. On March 12, 1999, OGGI contributed \$750,000 to the Corporation as additional paid in and contributed surplus.

On October 1, 2000, OGGI merged with Ohio Farmers Insurance Company (OFIC). OFIC operates with other companies in a group known as the Westfield Group. Under this arrangement, ISC was directly owned by OFIC. However, in August 2002, the organizational structure was changed so that Westfield Financial Corporation (WFC), a wholly owned subsidiary of OFIC, became the direct owner of ISC.

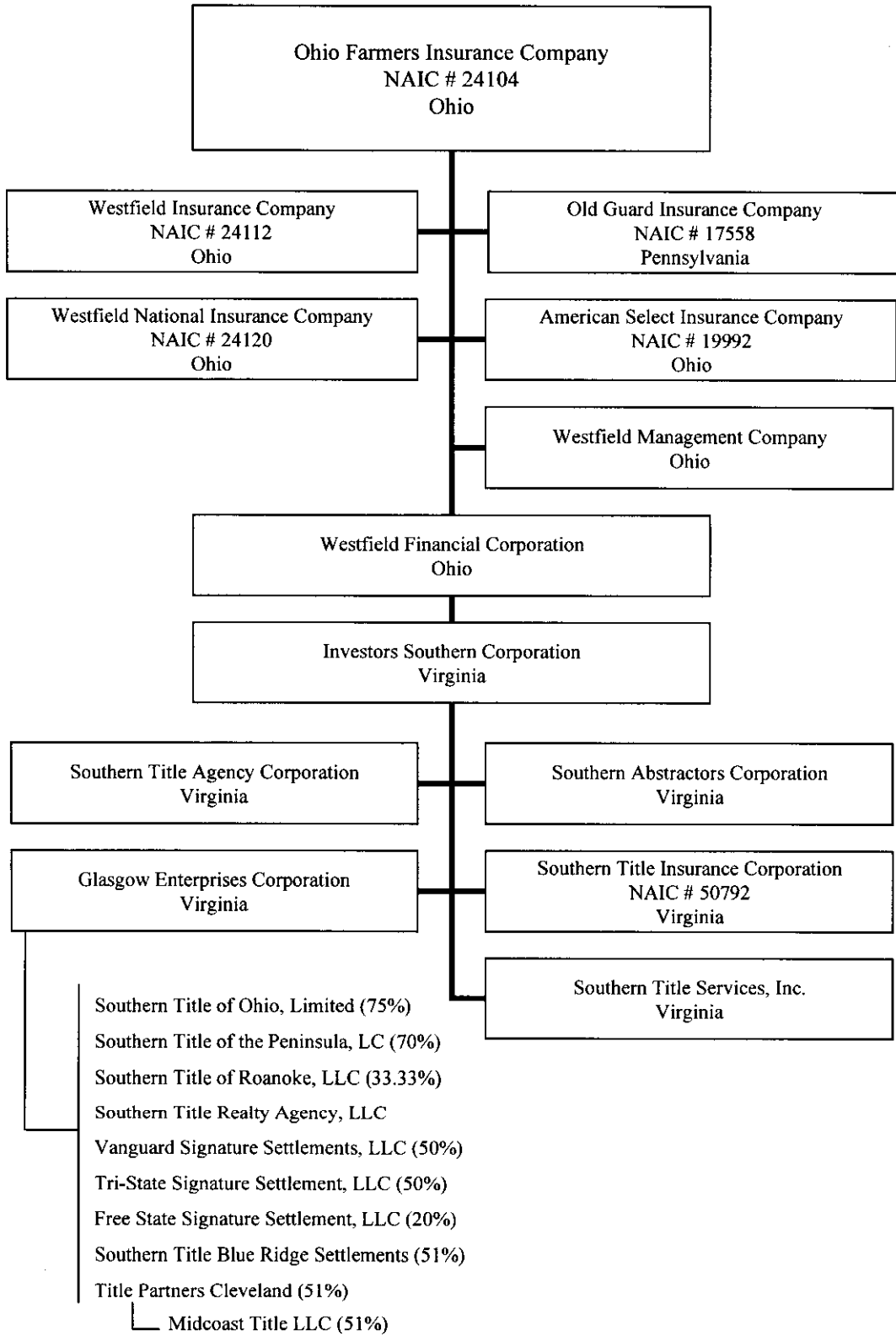
During 2006, the Corporation received a capital contribution of \$697,705 from ISC.

MANAGEMENT AND CONTROL

The bylaws provide that the business and affairs of the Corporation shall be managed by the board of directors. The bylaws state that the number of directors shall be not less than three or more than five. The bylaws further state that the officers of the Corporation shall be a chairman, a president, a treasurer and a secretary, and where elected, one or more vice presidents. The board of directors may from time to time establish additional officers as provided for in the bylaws. At December 31, 2006, the board of directors and officers of the Corporation were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Robert J. Joyce	Chief Executive Officer Westfield Group
Jon W. Park	President Westfield Bancorp
Dennis M. Reeves	President Southern Title Insurance Corporation
John E. Warfel	President Westfield Financial Corporation
 <u>Officers</u>	
Dennis M. Reeves W. Riker Purcell	President and Chief Executive Officer Executive Vice President, General Counsel and Secretary
Robert W. Blanton, Jr.	Treasurer and Chief Financial Officer
Michael T. Bates	Vice President
Robert L. Bradshaw, Jr.	Vice President
William J. Hardwick	Vice President
Gail E. Markey	Vice President
Eugene R. McCullough	Vice President
Robert E. Philo	Vice President
Edward R. Waugaman	Vice President
Philip T. Wells	Vice President
Ronald D. Wiley, Jr.	Vice President

As of December 31, 2006, the Corporation was a wholly owned subsidiary of ISC, which is a wholly owned subsidiary of WFC, which is a wholly owned subsidiary of OFIC, an Ohio domiciled reciprocal property and casualty insurer. The chart on the following page depicts this organizational structure at December 31, 2006:



RELATED PARTY TRANSACTIONS

Effective July 9, 1987, the Corporation entered into an agreement with Southern Title Agency Corporation (STA). According to the agreement, the Corporation manages the sale of title insurance and related operations for STA. For these services, STA will pay the Corporation an annual management fee equal to its net annual profits. During 2004, 2005 and 2006, the Corporation received \$269,843, \$300,362 and \$156,613, respectively, for these services.

The Corporation and Southern Title Services, Inc. (STS) are parties to a management agreement. The Corporation has agreed to manage title insurance business and related operations on behalf of STS in return for an annual management fee equal to STS's annual net profits. During 2004, 2005 and 2006, the Corporation received \$53,702, \$41,461 and \$35,123, respectively, for these services.

Effective January 1, 1997, the Corporation entered into an agreement with an affiliate, Glasgow Enterprises Corporation (Glasgow), whereby the Corporation agreed to manage Glasgow's title insurance agency and other related business. For these services, Glasgow will pay the Corporation an annual management fee equal to its net annual profits. Glasgow participates in several joint ventures which operate as title insurance agencies. The ownership interests in these agencies are outlined in the organizational chart on page four of this report. During 2004, 2005 and 2006, Glasgow paid \$1,116,161, \$1,040,532 and \$570,293, respectively, to the Corporation for these services.

The Corporation has service agreements with Southern Title of Ohio, Limited (Ohio), Southern Title of the Peninsula (Peninsula), and Southern Title of Roanoke (Roanoke), whereby the companies perform certain supervisory, underwriting and administrative services with respect to the title insurance business of the Corporation and certain of its issuing agents. As compensation, Ohio shall receive 25.67% and Peninsula and Roanoke shall receive 20% of the gross title insurance premiums generated by the issuing agents that are covered under the agreements.

The Corporation has a services agreement with ISC whereby the Corporation will provide certain services related to reporting, insurance, accounting, and taxation. ISC shall reimburse the Corporation for the direct costs borne by the Corporation for providing such services.

Dividends:

During the period covered by this examination, the Corporation paid the following dividends:

2004	\$1,252,384*
2005	\$705,000
2006	\$687,993

*\$1,059,000 of this amount paid was determined to be an extraordinary dividend. This received prior approval from the Bureau.

OFFICERS AND EMPLOYEES BENEFIT PLANS

A 401(K) plan is available for employees of the Corporation under which the employees may make tax-sheltered contributions of up to 16% of their compensation, subject to certain limitations. The amount of the contribution may be increased by the Corporation, which reserves the right to determine the percentage of the employees' savings contribution it will match on an annual basis.

The Corporation makes other traditional benefits such as health, life, and disability insurance available to its employees.

Executive Employment Agreements

The Corporation had various executive employment contracts in effect at December 31, 2006. All contracts contain certain non-compete clauses varying from one to two years in duration and incentive bonus provisions specifying a range of 2½ to 20% of after tax net income of the Corporation or the branch office, as applicable. The contracts with branch managers renew on a year-to-year basis after the specified initial term.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2006, the Corporation had fidelity coverage in force in the amount of \$10,000,000 through a fidelity bond insuring ISC. This coverage is subject to a single risk deductible of \$100,000. Additionally, the Corporation had a commercial package policy providing coverage for property, inland marine and general liability. The Corporation also had auto liability, auto physical damage, workers' compensation, directors and officers liability and excess liability policies in force at December 31, 2006.

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact the business of title insurance in the following jurisdictions:

Alabama	Louisiana	Ohio
Arkansas	Maryland	Pennsylvania
Colorado	Mississippi	South Carolina
Delaware	Nevada	Tennessee
District of Columbia	New Jersey	Texas
Florida	New Mexico	Virginia
Georgia	North Carolina	West Virginia

In 2006, Virginia accounted for 31% of the business written. Colorado, Florida, Maryland, Tennessee and Texas combined to account for 53% of the business written. The Corporation operates through 7 branch offices, 11 affiliates, and approximately 600 agencies. Independent agencies receive commissions of 60 to 80% of premiums. Each agency's authority is pursuant to its contract with the Corporation. Generally, most agencies have authority to issue both title commitments and policies within their contractual limitations.

Policies are issued based on an application from an approved attorney or as a result of a real estate settlement conducted by the Corporation or one of its affiliates or agencies. Prior to the issuance of a policy, the Corporation requires a title search of the public records, back title files, maps and/or other documents affecting the property in question.

Two types of policies are issued: An owner's policy and a lender's policy. In addition to the title premium, fees are charged for examination of title, preparation of commitment for title insurance settlement or other related services provided to the attorney or insured.

In addition to owner's and lender's policies, a letter of agreement entitled an "Insured Closing Service Agreement" is available to lenders who wish to utilize the services of approved attorneys or settlement agents in closing transactions where title insurance is purchased. This agreement indemnifies the lender against loss resulting from fraud or dishonesty of such attorneys or settlement agents or their failure to follow closing instructions. No charge is made for this agreement in Virginia, although in certain states a charge is imposed.

GROWTH OF THE CORPORATION

The following data obtained from Annual Statements filed with the Bureau and from this and previous examination reports, reflects the growth of the Corporation for the ten-year period ending December 31, 2006:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Paid-In Surplus</u>	<u>Unassigned Funds</u>
1997	\$7,418,495	\$3,234,757	\$1,001,123	\$4,527,633	(\$1,345,018)
1998	8,090,285	3,476,616	1,001,123	4,527,633	(915,087)
1999	9,222,394	3,766,335	1,001,123	5,277,633	(822,697)
2000	9,313,537	3,993,110	1,001,123	5,277,633	(958,329)
2001	10,870,182	4,445,669	1,001,123	5,277,633	145,757
2002	12,100,969	5,116,240	1,001,123	5,277,633	705,973
2003	14,392,021	6,884,532	1,001,123	5,277,633	1,228,733
2004	17,751,912	10,088,224	1,001,123	5,277,633	1,384,932
2005	19,481,762	11,321,524	1,001,123	5,277,633	1,881,482
2006	21,172,735	12,511,970	1,001,123	5,975,338	1,684,304

<u>Year</u>	<u>Total Operating Income</u>	<u>Total Operating Deductions</u>	<u>Net Operating Gain or (Loss)</u>	<u>Net Income or (Loss)</u>
1997	\$10,083,514	\$10,553,335	(\$469,821)	(\$86,219)
1998	12,472,657	11,839,716	632,941	844,084
1999	13,717,417	13,330,693	386,724	411,855
2000	11,570,592	12,335,492	(764,900)	(292,795)
2001	16,277,033	15,691,675	585,358	722,781
2002	21,007,431	20,531,090	476,341	544,790
2003	35,528,251	33,224,285	2,303,966	1,579,443
2004	37,575,572	36,164,287	1,411,285	901,992
2005	46,119,513	44,413,964	1,705,549	1,284,844
2006	55,480,631	55,673,091	(192,460)	128,559

REINSURANCE

At December 31, 2006, the Corporation was a party to a reinsurance agreement with Fidelity National Title Insurance Company (Fidelity). This agreement, effective September 1, 2006, provides for the Corporation to retain the first \$1,000,000 of liability and automatically cede policy amounts not in excess of \$10,000,000. The Corporation, however, must receive approval from Fidelity on all risks exceeding \$10,000,000. This agreement contains the appropriate insolvency clause.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2004 through December 31, 2006. Assets were verified and liabilities were established at December 31, 2006. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the *National Association of Insurance Commissioners Examiners Handbook*. Analytical review procedures were applied for non-SRA items.

The services of Oliver Wyman Actuarial Consulting, Inc. were engaged pursuant to the provisions of Code of Virginia § 38.2-1318 E. This engagement was made to provide an actuarial report as to the reasonableness of the Corporation's total statutory reserves as of December 31, 2006.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

- History
- Corporate Records
- Management and Control
- Territory and Plan of Operation
- Contracts and Underwriting
- Fidelity Bond
- Special Reserves and Deposits
- Accounts and Records
- Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2006, a statement of income for the period ending December 31, 2006, a reconciliation of surplus for the period under review, and a statement of cash flow as of December 31, 2006. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$14,151,383		\$14,151,383
Preferred stocks	226,987		226,987
Real estate:			
Properties occupied by the company	199,608		199,608
Properties held for sale	116,000	116,000	
Cash and short-term investments	2,783,275		2,783,275
Title plants	2,032,475		2,032,475
Investment income due and accrued	190,558		190,558
Uncollected premiums and agents' balances in the course of collection	267,531	69,792	197,739
Net deferred tax asset	2,069,966	1,732,144	337,822
Electronic data processing equipment and software	108,057	60,055	48,002
Furniture and equipment	175,305	175,305	
Receivables from parent, subsidiaries and affiliates	1,370,700	592,120	778,580
Aggregate write-ins for other than invested assets	671,738	445,432	226,306
Totals	<u>\$24,363,583</u>	<u>\$3,190,848</u>	<u>\$21,172,735</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Known claims reserve		\$1,344,570
Statutory premium reserve		9,361,572
Other expenses		641,261
Taxes, licenses and fees		383,085
Current federal income taxes		480,131
Premiums and other considerations received in advance		300,017
Payable to parent, subsidiaries and affiliates		<u>1,334</u>
 Total liabilities		 \$12,511,970
 Common capital stock	\$1,001,123	
Gross paid in and contributed surplus	5,975,338	
Unassigned funds (surplus)	<u>1,684,304</u>	
 Surplus as regards policyholders		 <u>8,660,765</u>
 Totals		 <u><u>\$21,172,735</u></u>

OPERATIONS AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

OPERATING INCOME

Title insurance and related income:	
Title insurance premiums earned	\$53,713,654
Escrow and settlement services	88,329
Other title fees and service charges	916,619
Management fees	762,029
	<hr/>
Total operating income	\$55,480,631

DEDUCTIONS

Losses and loss adjustment expenses incurred	\$2,258,236
Operating expenses incurred	53,414,855
	<hr/>
Total operating deductions	\$55,673,091
	<hr/>
Net operating loss	(\$192,460)

INVESTMENT INCOME

Net investment income earned	\$766,178
Net realized capital gains	19,624
	<hr/>
Net investment gain	\$785,802
	<hr/>
Net income before federal income taxes	\$593,342
Federal income taxes incurred	464,783
	<hr/>
Net income	\$128,559

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Surplus as regards policyholders, December 31, previous year	<u>\$7,507,489</u>	<u>\$7,663,688</u>	<u>\$8,160,238</u>
Net income	\$901,992	\$1,284,844	\$128,559
Net unrealized capital gains or (losses)	(119,042)	90,977	162,151
Change in net deferred income tax	328,417	101,154	121,484
Change in nonadmitted assets	297,216	(275,425)	78,621
Change in paid-in capital			697,705
Dividends to stockholders	<u>(1,252,384)</u>	<u>(705,000)</u>	<u>(687,993)</u>
Change in surplus as regards policyholders for the year	<u>\$156,199</u>	<u>\$496,550</u>	<u>\$500,527</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$7,663,688</u></u>	<u><u>\$8,160,238</u></u>	<u><u>\$8,660,765</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$55,595,500
Net investment income	760,130
Miscellaneous income	1,766,977
Total	<u>\$58,122,607</u>
Benefit and loss related payments	\$2,475,801
Commissions, expenses paid and aggregate write-ins for deductions	53,513,709
Federal income taxes paid	409,059
Total	<u>\$56,398,569</u>
Net cash from operations	<u>\$1,724,038</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$185,406
Total investment proceeds	<u>\$185,406</u>
Cost of investments acquired (long-term only):	
Bonds	\$1,760,720
Real estate	116,000
Total investments acquired	<u>\$1,876,720</u>
Net cash from investments	<u>(\$1,691,314)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	\$697,705
Dividends to stockholders	(687,993)
Other cash provided	189,412
Net cash from financing and miscellaneous sources	<u>\$199,124</u>
Net change in cash and short-term investments	<u>\$231,848</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$2,551,427
End of year	2,783,275
Net change in cash and short-term investments	<u>\$231,848</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. According to § 38.2-1331 A. of the Code of Virginia (Code),

Prior written approval of the Commission shall be required for:
Any material transaction between a domestic insurer and any of its affiliates involving (i) more than either three percent of the insured's admitted assets or twenty-five percent of the insurer's surplus to policyholders, whichever is less, as of the immediately preceding December 31....

For the period under examination, the Corporation was party to various management agreements with its affiliates. For 2004 and 2005, transactions pursuant to the agreement with Glasgow exceeded the established thresholds and therefore required prior written approval of the Commission. The Corporation, however, did not request the necessary approval for such transactions.

2. The Corporation was unable to provide the Examiners with a written disaster recovery plan. The Corporation did indicate each department had considered the necessary procedures in the event of a disaster; however, the procedures have not been documented in one comprehensive disaster recovery plan.

The Examiners recommend the Corporation develop a comprehensive disaster recovery plan that encompasses all functions of the Corporation.

Accounts and Records

3. During a review of claims, the Examiners noted the claim files did not provide sufficient supporting documentation. A comparison of the sampled files revealed that the contents of the files were inconsistent with regard to actions taken which included, but were not limited to, disbursements, recoupments, denials and the closing of the claims.

The Examiners recommend the Corporation ensure its claim files are maintained in a complete and consistent manner.

4. During the review of cash, the Examiners noted the following:
 - A. Bank reconciliations were not consistently reviewed in a timely manner, and
 - B. The accounting manager has the authorization to approve invoices, enter invoices, print checks and process cash receipts. This person is also responsible for updating the general ledger and reconciling the bank statement.

The Examiners recommend the Corporation review its bank reconciliations monthly and distribute certain functions of the accounting manager among other employees to ensure a more effective segregation of duties.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination was sincerely appreciated.

In addition to the undersigned, Jennifer K. Crawley, CFE, Mario A. Cuellar, CFE, Sheila E. Freeman, and Theresa C. Lewis, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,



T. Bradford Earley, Jr., CFE, CPCU, AIAF
Insurance Principal Financial Analyst
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC

SOUTHERN TITLE INSURANCE CORP.

P.O. BOX 399 • RICHMOND, VIRGINIA 23218

February 4, 2008

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
Bureau of Insurance
State Corporation Commission
Commonwealth of Virginia
P.O. Box 1157
Richmond, VA 23218

RE: Southern Title Insurance Corporation (NAIC No. 50792) Examination Report Response

Dear Mr. Smith:

The purpose of this letter is to submit Southern Title Insurance Corporation (the "Company") Management's written response explaining what procedures have been implemented, or are anticipated to be implemented, with respect to each recommendation for corrective action.

Management and Control

1. The Corporation did not request or receive necessary approval for its related party agreements with affiliates that exceeded more than three percent of the insured's admitted assets or twenty-five percent of the insurer's surplus to policy holder's pursuant to Section 38.2-133 A of the Code of Virginia.

Management's Response

The Corporation acknowledges the oversight for not obtaining approval for its Glasgow affiliate for the years ended 2004 and 2005 and will draft new agreements and submit for necessary approval of such transactions.

2. The Corporation was unable to provide the Examiners with written disaster recovery plan. The Corporation did indicate each department had considered the necessary procedures in the event of a disaster; however, the procedures have not been documented in one comprehensive disaster recovery plan,

Management's Response

The Company is in the process of completing a formal plan. The plan will include alternative locations in the case of an emergency. The Company is also working with its parent corporation, Westfield Insurance Group, to develop the plan within their guidelines as this is a corporate initiative. Meetings with Westfield commenced in October.

Accounts and Records

3. During a review of claims, the Examiners noted the claim files did not provide sufficient supporting documentation. A comparison of the files sampled were found to be inconsistent with regard to actions taken, which included but were not limited to, disbursements, recoupments, denials and closing of a claim. The Examiners recommend the Corporation ensure its claim files are maintained in a complete and consistent manner.

Management's Response

We hired a claims manager in late 2006 and hired a claims administrative person to help centrally maintain the claims records as opposed to having details maintained in both Richmond and Knoxville. The company is also in the process of developing a new claims system which will aide in the documentation and management of claims.

4. During a review of cash, the Examiners noted the following: Bank reconciliations were not consistently reviewed, and the accounting manager has the authorization to approve invoices, enter invoices, print checks and process cash receipts. This person is also responsible for updating the general ledger and reconciling the bank statement.

Management's Response

Beginning in 2006, bank reconciliations have been reviewed; however, documentation of the review was not always evident. The Company will have documented review of bank reconciliations and segregate more aspects of the cash process to other members of the accounting staff and shift more responsibility to the branch offices as we have limited resources.

If you have any questions or need additional information, please feel free to contact me at my office (804) 648-6000 x-3006.

Sincerely,



Dennis M. Reeves
President
Southern Title Insurance Corporation