

HOME PROPERTIES INC
Form 4
May 03, 2007

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
DOYLE SCOTT

(Last) (First) (Middle)

**C/O HOME PROPERTIES, 850
CLINTON SQUARE**

(Street)

ROCHESTER, NY 14604

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
HOME PROPERTIES INC [HME]

3. Date of Earliest Transaction
(Month/Day/Year)
05/01/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)
Senior Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V Amount (D) Price (A) or (D)			
Common Stock, Par Value \$.01	05/01/2007		A	2,477 A	\$ 0 (1) 18,285	D	
Common Stock, Par Value \$.01					210	I	By 401(KI Plan)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

Table with 7 columns: 1. Title of Derivative Security, 2. Conversion or Exercise Price of Derivative Security, 3. Transaction Date, 3A. Deemed Execution Date, if any, 4. Transaction Code, 5. Number of Derivative Securities Acquired (A) or Disposed of (D), 6. Date Exercisable and Expiration Date, 7. Title and Amount of Underlying Securities. Includes entry for Options to Purchase Common Stock.

Reporting Owners

Reporting Owner Name / Address

Relationships

Director 10% Owner Officer Other

DOYLE SCOTT
C/O HOME PROPERTIES
850 CLINTON SQUARE
ROCHESTER, NY 14604

Senior Vice President

Signatures

/s/ Scott Doyle, By Ann M. McCormick,
attorney-in-fact

05/03/2007

**Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
(1) Represents grant of restricted stock to the Reporting Person under the provisions of the Issuer's Amended and Restated 2003 Stock Benefit Plan. The grant vests approximately 25% annually over the next four years beginning on May 1, 2008.
(2) This option was granted by the Board of Directors on May 1, 2007 and the exercise price is the closing on the NYSE on that date.
(3) This option vests approximately 20% annually over the next five years beginning on May 1, 2008.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. % - 1.99% \$1,103,424 1.98% - 2.48%

Certificates of deposit:

Under \$100,000

3,630,018 1.69% - 6.77% 2,515,173 1.59% - 6.77% 2,355,571 1.75% - 6.77%

\$100,000 and over

2,125,512 1.40% - 6.77% 2,461,386 0.85% - 6.63% 1,086,728 1.45% - 6.63%

\$7,546,980	\$6,633,166	\$4,545,723
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Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2004, the weighted-average interest rate for savings and money market deposit accounts was 2.23% and for certificates of deposit it was 2.54%. The weighted-average interest rate for all deposits at December 31, 2004 was 2.47%.

The certificates of deposit outstanding at December 31, 2004, mature as follows (thousands of dollars):

2005	\$5,590,878
2006	110,988
2007	890
2008	16,664
2009	36,110
	<u>\$5,755,530</u>

The table below summarizes the Company's certificates of deposit as of December 31, 2004, which are in amounts of \$100,000 or more, by maturity and by type.

	Certificates of Deposit \$100,000 or more, maturing				
	3 months or less	Over 3 through 6 months	Over 6 through 12 months	Over 12 months	Total
	(Thousands of dollars)				
Retail	\$ 179,192	\$ 73,107	\$28,915	\$ 6,460	\$ 287,674
IRA's	5,008	3,725	3,173	729	12,635
Brokered	1,299,481	384,975	30,914	109,833	1,825,203
	<u>\$1,483,681</u>	<u>\$461,807</u>	<u>\$63,002</u>	<u>\$117,022</u>	<u>\$2,125,512</u>

Interest expense on deposits is summarized as follows:

	Year Ended December 31,		
	2004	2003	2002
	(Thousands of dollars)		
Savings and money market deposit accounts	\$ 35,694	\$ 28,605	\$ 28,730
Certificates of deposit	116,036	99,394	114,608
Penalties for early withdrawal	(245)	(208)	(273)
	<u>\$151,485</u>	<u>\$127,791</u>	<u>\$143,065</u>

Total interest payments on deposits were \$151,706,000, \$124,312,000, and \$143,380,000 in 2004, 2003 and 2002, respectively.

Note L Warehouse Lines of Credit

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During 2003 FIL established three separate warehouse lines of credit to facilitate the funding of residential real estate loans prior to their sale or securitization. The total funding capacity available at December 31, 2004 under the three facilities was \$1.5 billion, of which \$750 million was committed. There were no amounts outstanding at December 31, 2004. The three facilities are summarized as follows:

\$500 million master loan and security facility (\$250 million committed) with Greenwich Capital Financial Products expiring in September 2005, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.50%.

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\$500 million master repurchase facility (\$250 million committed) with Credit Suisse First Boston Mortgage Capital expiring in April 2005, secured by certain residential real estate loans held for sale, interest at overnight LIBOR plus a margin of 0.50%.

\$500 million master repurchase facility (\$250 million committed) with Goldman Sachs Mortgage Company expiring in February 2006, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.45%.

Each of the facilities is subject to certain conditions, including but not limited to financial and other covenants including the maintenance of certain capital and liquidity levels. At December 31, 2004 the Company was in compliance with all financial and other covenants related to these facilities. It is expected that the warehouse financing lines will be renewed or replaced. Total commitment fees and interest payments on amounts outstanding under the warehouse lines of credit were \$668,000 and \$1,548,000 in 2004 and 2003, respectively; there were no warehouse lines of credit in place prior to 2003.

Note M Advances from the FHLB and Federal Reserve

FIL is a member of the Federal Home Loan Bank system, and as such maintains a credit line with the FHLB of San Francisco that is based upon a percentage of its total regulatory assets, subject to collateralization requirements and certain collateral sub-limits. Advances are primarily collateralized by the residential loans held for sale, and to a lesser extent, by commercial loans receivable. The maximum amount of credit which the FHLB will extend varies from time to time in accordance with their policies. At December 31, 2004 and 2003, FIL had an approximate maximum borrowing capacity of \$2.11 billion and \$2.66 billion, respectively, with outstanding borrowings of \$900.0 million and \$1.65 billion, respectively, from the FHLB of San Francisco. FIL pledged loans with a carrying value of \$2.37 billion and \$2.14 billion at December 31, 2004 and 2003, respectively, to secure the current and any future borrowings. FIL's borrowing capacity can be used to borrow under various FHLB loan programs, including adjustable and fixed-rate financing, for periods ranging from one day to 30 years, with a variety of interest rate structures available. The weighted-average interest rate on the amount outstanding at December 31, 2004 was 1.97%. The borrowing capacity has no commitment fees or cost, requires minimum levels of investment in FHLB stock, and can be withdrawn by the FHLB if there is any significant change in the financial or operating condition of FIL and is conditional upon its compliance with certain agreements covering advances, collateral maintenance, eligibility and documentation requirements. The Company receives dividend income on its investment in FHLB stock. At December 31, 2004 and 2003, FIL was in compliance with all requirements.

The following table details the FHLB amounts outstanding at December 31, 2004 by maturities and rates (thousands of dollars):

Maturing by	December 31,	Weighted Average Rate	Amount
2005		1.92%	\$ 651,000
2006		2.10%	249,000
			<u>\$ 900,000</u>

Total interest payments on advances from the FHLB were \$25,130,000, \$25,151,000, and \$15,190,000 in 2004, 2003 and 2002, respectively.

FIL has a line of credit with the Federal Reserve Bank of San Francisco (Federal Reserve), and at December 31, 2004 and 2003 had a borrowing capacity, based upon collateral pledged, of \$159.0 million and \$385.1 million, respectively, with no outstanding borrowings or activity during 2004 or 2003. FIL pledged loans with a carrying value of \$212.1 million and \$513.5 million at December 31, 2004 and 2003, respectively to the Federal Reserve. This line of credit is provided when all other sources of funds are not reasonably

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available, and such advances are made with the expectation that they will be repaid when the availability of the usual source of funds is restored, usually the next business day.

Note N Senior Notes and Liquid Yield Option Notes

	2004	2003
	<u> </u>	<u> </u>
	(Thousands of dollars)	
Senior Notes due 2004, less discount (2003 \$8)	\$	\$ 22,377
Senior Notes due 2009, less discount (2004 \$1,317; 2003 \$1,713)	180,133	188,987
Liquid Yield Option Notes due 2013, less discount (2004 \$339; 2003 \$416)	611	654
	<u> </u>	<u> </u>
	\$ 180,744	\$ 212,018
	<u> </u>	<u> </u>

In 1999, Fremont General issued \$425,000,000 of Senior Notes (the Senior Notes) that consisted of \$200,000,000 and \$225,000,000 7.70% Senior Notes due 2004 and 7.875% Senior Notes due 2009, respectively. Total proceeds to Fremont General were approximately \$420,237,000. The Senior Notes may be redeemed at any time in whole or in part before maturity, but are not subject to sinking fund payments. These notes are unsecured senior indebtedness of Fremont General ranking equally with Fremont General's existing and future unsubordinated indebtedness. Interest is payable on the notes semi-annually in March and September. During 2004, Fremont General redeemed at the scheduled March 17, 2004 maturity date the remaining outstanding balance of \$22,385,000 par value of 7.7% Senior Notes due 2004. Also during 2004, Fremont General repurchased \$9,250,000 par value of 7.875% Senior Notes due 2009 with a carrying value of \$9,174,000 resulting in a pre-tax loss of \$105,000. During 2003 and 2002, Fremont General repurchased \$49,325,000 and \$78,915,000 par values of the 7.7% Senior Notes due 2004 with carrying values of \$49,248,000 and \$78,680,000 resulting in pre-tax gains of \$25,000 and \$3,111,000, respectively. No 7.875% Senior Notes due 2009 were repurchased in 2003 or 2002.

Total interest payments for the Senior Notes were \$15,727,000, \$19,081,000 and \$25,428,000 in 2004, 2003 and 2002, respectively.

In 1993, Fremont General sold in a public offering an aggregate \$373,750,000 principal amount at maturity of Liquid Yield Option Notes due October 12, 2013 (Zero Coupon-Subordinated) (the LYONs) at an issue price of \$372.42 for total net proceeds of approximately \$135,000,000. The yield to maturity is 5% with no periodic payments of interest. Each LYON is convertible into 38.5737 shares of Fremont General's common stock and was non-callable for five years. During 2004, holders converted aggregate principal amounts of \$120,000 of LYONs into 5,000 shares of Fremont General's common stock. Holders converted aggregate principal amounts of \$110,000 of LYONs into 4,000 shares of Fremont General's common stock during 2003. In addition, during 2003 and 2002, \$4,140,000 and \$2,269,000 of outstanding LYONs with carrying values of \$2,501,000 and \$1,282,000 were repurchased resulting in a pre-tax gain (loss) of \$(26,000) and \$80,000, respectively. No LYONs were repurchased during 2004; no LYONs were converted in 2002.

Note O Junior Subordinated Debentures/Preferred Securities

In 1996, Fremont General Financing I, a statutory business trust (the Trust) and consolidated wholly-owned subsidiary of Fremont General, sold \$100 million of 9% Trust Originated Preferred SecuritiesSM (the Preferred Securities) in a public offering. The Preferred Securities represent preferred undivided beneficial interests in the assets of the Trust. Holders of the Preferred Securities are entitled to receive cumulative cash distributions at an annual rate of 9% of the liquidation amount of \$25 per Preferred Security, payable quarterly. The proceeds from the sale of the Preferred Securities were invested in 9% Junior Subordinated Debentures of Fremont General (the Junior Subordinated Debentures). The Junior Subordinated Debentures are the sole asset of the Trust.

Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Preferred Securities will be redeemed upon maturity of the Junior Subordinated Debentures in 2026, subject to the election available to Fremont General to extend the maturity up to 2045, and they may be redeemed, in whole or in part, at any time. Fremont General has the right to defer payments of interest on the Junior Subordinated Debentures, at any time, for up to 20 consecutive quarters. If interest payments on the Junior Subordinated Debentures are so deferred, distribution on the Preferred Securities will also be deferred.

The Junior Subordinated Debentures rank *pari passu* with Fremont General's LYONs, and are subordinate and junior to all senior indebtedness of Fremont General. (See Note N.) Payment of distributions out of cash held by the Trust, and payments on liquidation of the Trust or the redemption of the Preferred Securities are guaranteed by Fremont General to the extent that the Trust has funds available to make such payments. Interest expense on the Junior Subordinated Debentures was \$9,278,000 in 2004. Trust distributions of \$9,000,000 in 2003 and 2002 were included in interest expense.

Note P Other Liabilities

The following table details the composition of the Company's other liabilities as of the dates indicated:

	December 31,	
	2004	2003
	(Thousands of dollars)	
Accrued incentive compensation	\$ 74,671	\$ 56,697
State income tax liability	50,887	58,206
Federal income tax liability	50,652	14,779
Deferred compensation obligation	33,495	17,957
Accrued Employer Stock Ownership Plan expense	29,892	21,465
Borrower escrow collections payable	23,091	24,257
Accounts payable	22,950	12,711
Interest payable	12,755	13,725
Borrower principal and interest due investors	11,591	6,438
Premium recapture reserve	7,516	3,944
Allowance for unfunded loan commitments	7,087	5,698
Other	36,944	29,494
	\$361,531	\$265,371

Note Q Stockholders Equity

Fremont General is authorized to issue up to 2,000,000 shares of \$.01 par value preferred stock; however, none have been issued. During 2004 and 2003, Fremont General issued 1,384,000 and 627,000 common shares with a fair value of \$33,545,000 and \$5,514,000, respectively, to fund employee benefit and stock-based compensation programs.

Stock award plans are provided for the benefit of certain key members of management that authorize up to 14,346,000 shares of either stock rights or stock options to be allocable to participants. An aggregate of 438,000, 20,000 and 2,939,000 shares of restricted stock were awarded at a weighted-average fair value of \$19.71, \$16.20 and \$4.33 in 2004, 2003, and 2002, respectively. Restricted stock awards are amortized to compensation expense over the service period of the awards that vary from two to ten years. Amortization expense amounted to \$10,807,000, \$11,804,000 and \$11,475,000 for 2004, 2003 and 2002, respectively. Unamortized amounts are reported as deferred compensation in the consolidated balance sheets.

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During the years 1993 to 1997, stock options were granted at exercise prices equal to the fair value of the stock on the date of grant. Grantees vested at the rate of 25% per year beginning on the first anniversary of the grants that expire after ten years. Stock option grants were accounted for in accordance with the intrinsic value

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method and, accordingly, no compensation expense was recognized. For the applicable years, additional disclosure was provided regarding the pro forma effects on earnings per share calculated as if the recognition and measurements provisions of the fair value method had been adopted. However, no such pro forma disclosure is applicable for the years ended December 31, 2004, 2003 and 2002.

	Number of Shares	Weighted Average Exercise Price
Shares outstanding and exercisable:		
Balance at January 1, 2002	1,731,602	13.41
Forfeited	(27,712)	11.74
	<hr/>	
Balance at December 31, 2002	1,703,890	13.44
Exercised	(269,394)	7.87
Forfeited	(20,000)	14.00
	<hr/>	
Balance at December 31, 2003	1,414,496	14.49
Exercised	(946,496)	14.27
	<hr/>	
Balance at December 31, 2004	468,000	14.94
	<hr/>	

The exercise price of the option shares outstanding at December 31, 2004 was \$14.94 with a remaining contractual life of 2.12 years.

The payment of dividends on Fremont General's common stock, if any, is at the discretion of the Board of Directors. The payment of common stock dividends is subordinate to the payment of the cash distributions on the Preferred Securities (See Note O). Pursuant to the terms of the Preferred Securities, any non-payment or deferral of scheduled distributions precludes the payment of dividends on the Company's common stock. During 2004 and 2003, the Company declared dividends to stockholders of \$18.2 million and \$12.8 million, respectively. On February 24, 2005, the Board of Directors declared a quarterly dividend of \$0.07 per common share, payable April 29, 2005 to holders of record on March 31, 2005.

Unrealized gains or losses on the Company's investment securities and residual interests in securitized loans (which are classified as available for sale instruments) are included in other comprehensive income.

Note R Employee Benefit Plans

The Company sponsors a 401(k) Plan and an Employee Stock Ownership Plan (ESOP) that covers substantially all employees with at least one year of service. Contribution expense for these plans amounted to \$39,939,000, \$30,802,000 and \$8,807,000 for 2004, 2003 and 2002, respectively, of which \$28,416,000, \$24,833,000, and \$6,337,000 related to the ESOP. Cash contributions to the ESOP, which relate to 2004, 2003 and 2002, were \$18,243,000, \$12,661,000 and \$7,689,000, respectively. The contributions, which are generally discretionary, are based on total compensation of the participants. The Company's ESOP is a non-leveraged plan. The shares it holds are treated as outstanding in computing the Company's basic and fully diluted earnings per share with all dividends on shares held charged to retained earnings.

The Company also maintains a Supplemental Executive Retirement Plan and Excess Benefit Plan; both of which are deferred compensation plans designed to provide certain employees the ability to receive benefits that would be otherwise lost under the Company's qualified retirement plans due to statutory or other limits on salary deferral and matching contributions.

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FIL is subject to various regulatory capital requirements under California and Federal regulations. Failure to meet minimum capital requirements can result in regulatory agencies initiating certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, FIL must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. FIL's capital amounts, requirements and classifications are also subject to qualitative judgments by its regulators about components, risk weightings and other factors. Banking organizations that are experiencing or anticipating significant growth are generally expected to maintain capital ratios above minimum levels.

As of December 31, 2004 and 2003, FIL's regulatory capital exceeded all minimum requirements to which it is subject and the most recent notification from the FDIC categorized FIL as well-capitalized. To be categorized as well-capitalized, the institution must maintain capital ratios as set forth in the following table; the FDIC and FIL, however, have agreed that FIL will maintain a Tier-1 Leverage Ratio of at least 8.5%. There have been no conditions or events since that notification that management believes have changed FIL's categorization as well-capitalized. As of December 31, 2004, FIL's Tier-1 Leverage Ratio was 12.71%. Management does not anticipate any difficulties in maintaining a Tier-1 Leverage Ratio of at least 8.5%. FIL's actual regulatory amounts and the related standard regulatory minimum ratios required to qualify as well-capitalized are detailed in the table below.

	December 31, 2004	
	Minimum Required	Actual Ratio
Tier-1 Leverage Capital	5.00%	12.71%
Risk-Based Capital:		
Tier-1	6.00%	17.26%
Total	10.00%	18.54%
	December 31, 2003	
	Minimum Required	Actual Ratio
Tier-1 Leverage Capital	5.00%	9.52%
Risk-Based Capital:		
Tier-1	6.00%	12.13%
Total	10.00%	13.42%

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Regulatory capital is assessed for adequacy by three measures: Tier-1 Leverage Capital, Tier-1 Risk-Based Capital and Total Risk-Based Capital. Tier-1 Leverage Capital is measured with respect to average assets during the quarter. The Tier-1 Risk-Based Capital ratio is calculated as a percent of risk-weighted assets at the end of the quarter. FIL's Total Risk-Based Capital includes the allowable amount of its allowance for loan losses (the allowable amount includable is limited to 1.25% of gross risk-weighted assets). The Total Risk-Based Capital ratio is calculated as a percent of risk-weighted assets at the end of the quarter. The following table details the calculation of the respective capital amounts at FIL at the dates indicated:

	December 31, 2004	December 31, 2003
	(Thousands of dollars)	
Common stockholder's equity at FIL	\$ 1,239,701	\$ 834,030
Less:		
Disallowed portion of mortgage servicing rights	(1,800)	(592)
Unrealized gains on available-for-sale securities	(1,413)	(616)
Total Tier-1 Capital	1,236,488	832,822
Add:		
Allowable portion of the allowance for loan losses	92,178	88,080
Total Risk-Based Capital (Tier-1 and Tier-2)	\$ 1,328,666	\$ 920,902

Note T Discontinued Insurance Operations in Regulatory Liquidation

In December 2002, the Company accrued a charge by setting up a liability for the maximum amount of its potential future cash contributions to its discontinued workers' compensation insurance subsidiary, Fremont Indemnity Company (Fremont Indemnity). These future contributions included both mandatory and contingent cash contributions as per the July 2, 2002 Letter Agreement of Run-Off and Regulatory Oversight among the California Department of Insurance, Fremont General and Fremont Indemnity (the Agreement). The Agreement was included as an exhibit to the Company's Form 8-K which was filed on July 19, 2002. At December 31, 2002, the total amount of these future potential cash contributions was \$79.5 million, payable ratably at \$13.25 million annually over a period of six years.

The Insurance Commissioner of the State of California sought, and was granted, an order of conservation over Fremont Indemnity by the Superior Court of the State of California for the County of Los Angeles on June 4, 2003. The conservation order incorporates the Agreement and also provides that nothing in the order is intended to modify any of the provisions of the Agreement. The Insurance Commissioner of the State of California further sought, and was granted, an order of liquidation over Fremont Indemnity by the Superior Court of the State of California for the County of Los Angeles on July 2, 2003. Pursuant to the provisions of the Agreement, the granting of an order of conservation and/or liquidation prior to March 1, 2004 extinguishes the obligation of the Company to provide any further cash contributions to Fremont Indemnity and, as a result, during the second quarter of 2003, the Company recognized a net of tax gain of \$44,308,000 from the reversal of this liability for potential future cash contributions to Fremont Indemnity. The gain was based upon the reversal of the total maximum amount of cash contributions of \$72,875,000 that remained as of June 4, 2003.

While the Company owns 100% of the common stock of Fremont Indemnity, the assets and liabilities of Fremont Indemnity are excluded from the accompanying Consolidated Balance Sheets as the Company no longer has effective control over the operation of this subsidiary.

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note U Commitments and Contingencies

The Company is a defendant in a number of legal actions arising in the ordinary course of business and from the discontinuance of the insurance operations. Management and its legal counsel are of the opinion that the settlement of these actions, individually or in the aggregate, will not have a material effect on the Company's business, financial position or results of operations.

On June 2, 2004, the State of California Insurance Commissioner John Garamendi (the Commissioner), as statutory liquidator of Fremont Indemnity, filed suit in Los Angeles Superior Court against Fremont General alleging improper utilization by Fremont General of certain net operating loss deductions (NOLs) allegedly belonging to its Fremont Indemnity subsidiary (the Fremont Indemnity case). This complaint involves issues that Fremont General considers were resolved in the Agreement between the California Department of Insurance, Fremont Indemnity and Fremont General. The Agreement, dated July 2, 2002, was executed on behalf of the California Department of Insurance by the Honorable Harry Low, the State of California Insurance Commissioner at that time. Fremont General has honored its obligations under the Agreement, and will continue to do so and believes that the complaint mischaracterizes the terms of the Agreement and lacks merit.

On January 25, 2005, the Company's motions to dismiss the lawsuit brought by the Commissioner, on behalf of Fremont Indemnity against the Company were argued and heard before the Superior Court of the State of California. On January 26, 2005 the Court issued its rulings dismissing all the causes of action in the complaint as follows:

The Court found that the Company properly utilized the NOLs in accordance with the Agreement. As a result of this finding, all causes of action were dismissed without leave to amend, except for the 7th cause of action for alleged concealment by the Company of a potential reinsurance dispute, which was dismissed with leave to amend. The Commissioner has the right to amend the 7th cause of action with allegations that are fact-specific. The Company believes that the 7th cause of action is without factual merit.

In addition, the Court rejected the Commissioner's request for findings that the Company's use of the NOLs and worthless stock deduction were voidable preferences and/or fraudulent transfers. The Court also rejected the Commissioner's request for injunctive relief to force the Company to amend its prior consolidated income tax returns to remove and forgo the worthless stock deduction for its investment in Fremont Indemnity.

The Commissioner subsequently filed a second complaint against Fremont General on behalf of Comstock Insurance Company, a former affiliate of Fremont Indemnity Company, which was subsequently merged into Fremont Indemnity. This case alleges similar causes of action regarding the usage of the NOLs as in the Fremont Indemnity case as well as transactions with other insurance subsidiaries and affiliates of Fremont Indemnity. This matter has now been deemed a related case to the Fremont Indemnity case and is before the same judge. Fremont General is represented by the same counsel and has filed its Motion to Dismiss, which has not yet been heard and argued. The Company believes that this complaint also involves issues that were resolved by the Agreement and that the lawsuit lacks merit.

Total rental expense for facilities and equipment under operating leases for 2004, 2003 and 2002, was \$10,214,000, \$7,725,000 and \$6,371,000 respectively. The Company leases office facilities and certain equipment under non-cancelable operating leases, the terms of which range from one to ten years. Certain leases provide for an increase in the basic rental to compensate the lessor for increases in operating and maintenance costs. The leases also provide renewal options.

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Under present operating leases, rental commitments are summarized in the following table (thousands of dollars):

2005	\$ 15,585
2006	15,333
2007	14,962
2008	14,136
2009	11,506
Thereafter	27,211
	<u> </u>
	\$98,733
	<u> </u>

The Company retains the right in its securitization transactions to call the securities when the outstanding balance of loans in the securitization trust declines to a specific level, typically 10% of the original balance. Management expects that the Company will typically exercise its clean-up call option. The loans acquired via the clean-up call may be then either sold or put into the Company's loan portfolio. While it is expected that most loans acquired in a clean-up call can be sold for gains or retained as attractive portfolio investments, a portion of the loans are expected to be non-performing and thus, it is possible that non-performing loans may increase temporarily between the time of the call exercise and the disposition of the loans.

The Company, in relation to one of its commercial real estate lending transactions, has participated in a standby letter of credit which represents a conditional obligation of the Company; this letter of credit guarantees the performance of a borrower to a third party in the amount of approximately \$17.5 million.

Note V Fair Values of Financial Instruments

Various methods and assumptions are utilized in estimating the fair value disclosures for financial instruments and these were as follows:

Cash and cash equivalents: The carrying amount approximates fair value.

Investment securities available for sale: Fair values are estimated from certain valuation services, as well as from quoted market prices.

FHLB stock: The carrying amount of the investment in FHLB stock, represents fair value. FHLB stock does not have a readily determinable fair value, but can be sold back to the FHLB at its par value with stated notice.

Loans held for sale: The estimated fair value of loans held for sale is based upon available information from recent sales of similar pools of loans.

Loans held for investment: For loans receivable with variable rates, the carrying amount is deemed to approximate fair value. The fair values of fixed rate real estate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit profiles.

Mortgage servicing rights: Fair value is estimated using projected cash flows, adjusted for the effects of anticipated prepayments, using a discount rate considered commensurate with the risk associated with the cash flows.

Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Residual interests in securitized loans: Fair value is estimated using discounted cash flow analyses using a discount rate considered commensurate with the risk associated with the cash flows.

Derivative instruments: Fair value is estimated based upon quoted market indicatives and internal discounted cash flow analyses.

Deposits: The carrying amounts of deposits for savings and money-market accounts are deemed to approximate fair value. The fair values of certificates of deposit are estimated utilizing discounted cash flow analyses, using interest rates currently being offered for similar deposits.

FHLB advances: The fair value of advances from the FHLB is estimated by applying discounted cash flow analyses, utilizing interest rates offered by the FHLB as of the respective balance sheet date for borrowings of similar maturities.

Senior Notes: Fair values are based on the latest market trade price.

LYONs Fair values are based on quoted market prices.

Junior Subordinated Debentures Fair values are based on quoted market prices of related Preferred Securities.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2004 and 2003 are summarized in the following table:

	2004		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Thousands of dollars)				
Assets				
Cash and cash equivalents (Note B)	\$ 904,975	\$ 904,975	\$ 835,651	\$ 835,651
Investment securities available for sale	1,236	1,236	1,958	1,958
FHLB stock	77,127	77,127	112,587	112,587
Loans held for sale - net (Note C)	5,454,692	5,592,473	3,653,547	3,787,836
Loans held for investment - net (Note D)	3,313,089	3,330,168	4,577,419	4,628,901
Mortgage servicing rights (Note F)	18,002	18,002	6,898	7,373
Residual interests in securitized loans (Note F)	15,774	15,774	6,530	6,530
Forward sale commitments (Note I)	2,739	2,739	596	596
Interest rate cap contract			7,740	7,740
Liabilities				
Deposits (Note A and K)	7,546,980	7,555,522	6,633,166	6,643,111
FHLB advances (Note M)	900,000	894,012	1,650,000	1,661,493
Interest rate lock commitments (Note I)	1,100	1,100	(414)	(414)
Eurodollar futures (Note I)	22	22		
Senior Notes due 2004 (Note N)			22,377	22,385
Senior Notes due 2009 (Note N)	180,133	184,852	188,987	195,468
LYONs (Note N)	611	689	654	654
Junior Subordinated Debentures/Preferred Securities (Note O)	103,093	105,979	100,000	103,200

Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note W Parent Company Only Condensed Financial Statements****CONDENSED BALANCE SHEETS**

	December 31,	
	2004	2003
	(Thousands of dollars)	
Assets		
Cash and cash equivalents	\$ 147,701	\$ 144,068
Investment in subsidiaries	1,236,230	834,636
Deferred income taxes	155,529	193,304
Other assets	45,256	51,388
	<u> </u>	<u> </u>
Total Assets	\$ 1,584,716	\$ 1,223,396
	<u> </u>	<u> </u>
Liabilities		
Accrued expenses and other liabilities	\$ 287,231	\$ 243,553
Debt	180,744	212,018
Junior Subordinated Debentures	103,093	103,093
	<u> </u>	<u> </u>
Total Liabilities	571,068	558,664
Total Stockholders' Equity	1,013,648	664,732
	<u> </u>	<u> </u>
Total Liabilities and Stockholders' Equity	\$ 1,584,716	\$ 1,223,396
	<u> </u>	<u> </u>

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	2003	2002
	(Thousands of dollars)		
Revenues			
Dividends from consolidated subsidiaries	\$	\$ 278	\$ 278
Net investment income	3,012	2,700	920
Net gain (loss) on extinguishment of debt	(105)	(1)	3,191
Other income	4,499	84	330
	<u>7,406</u>	<u>3,061</u>	<u>4,719</u>
Expenses			
Interest expense	15,380	18,786	24,374
Interest on Junior Subordinated Debentures	9,278	9,278	9,278
General and administrative	54,002	39,990	28,548
	<u>78,660</u>	<u>68,054</u>	<u>62,200</u>
	(71,254)	(64,993)	(57,481)
Income tax benefit	(21,137)	(20,408)	(15,771)
	<u>(92,391)</u>	<u>(85,401)</u>	<u>(73,252)</u>
Loss before equity in undistributed income of subsidiary companies and discontinued insurance operations	(50,117)	(44,585)	(41,710)
Equity in undistributed income of subsidiary companies	403,873	256,538	145,787
	<u>353,756</u>	<u>211,953</u>	<u>104,077</u>
Net income from continuing operations	353,756	211,953	104,077
Discontinued insurance operations		44,308	(77,762)
	<u>\$ 353,756</u>	<u>\$ 256,261</u>	<u>\$ 26,315</u>

Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2004	2003	2002
(Thousands of dollars)			
Operating Activities			
Net Cash Provided by Operating Activities	\$ 68,262	\$ 153,234	\$ 71,887
Investing Activities			
Purchases of investment securities available for sale			(2,994)
Maturities of investment securities available for sale			5,841
Contributions to subsidiary		(15,000)	
Capital contributions to discontinued insurance operations		(8,625)	(14,247)
Distribution from subsidiary		19,700	5,000
Purchase of premises and equipment	(4,930)	(87)	(95)
Net Cash Used in Investing Activities	(4,930)	(4,012)	(6,495)
Financing Activities			
Extinguishment of debt	(31,559)	(51,749)	(79,963)
Dividends paid	(16,613)	(10,516)	(7,177)
Stock options exercised	13,509	2,120	
(Increase) decrease in deferred compensation plans	(25,036)	781	4,268
Net Cash Used in Financing Activities	(59,699)	(59,364)	(82,872)
Increase (Decrease) in Cash and Cash Equivalents	3,633	89,858	(17,480)
Cash and cash equivalents at beginning of year	144,068	54,210	71,690
Cash and cash equivalents at end of year	\$ 147,701	\$ 144,068	\$ 54,210

Note X Operations by Reportable Segment

The Company manages its operations based on the types of products and services offered by each of its strategic business units. Based on that approach the Company has grouped its products and services into two reportable segments – Commercial and Residential Real Estate.

The Commercial Real Estate segment originates commercial real estate loans on a nationwide basis marketed through the use of trade advertising, direct marketing, newsletters and trade shows. Loans originated consist primarily of Bridge, Construction, Permanent, and to a lesser degree, Single Tenant Credit. Substantially all of the loans originated are held in the Company's loan portfolio.

The Residential Real Estate segment originates non-prime or sub-prime loans nationally on a wholesale basis which are primarily sold to third party investors on a servicing released basis, or, to a lesser extent, securitized.

Management measures and evaluates each of these segments based on total revenues generated, net interest income and pre-tax operating results. The results of operations include certain allocated corporate expenses as well as interest expense charged back to the segments for the use of funds generated by the Company's Corporate and Retail Banking operations. Interest expense is allocated among the residential and commercial segments using treasury rates matched to the terms of the respective loans plus a spread to cover the expenses of the Retail Banking operations.

Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Certain expenses that are centrally managed at the corporate level such as provision for income taxes and other general corporate expenses are excluded from the measure of segment profitability reviewed by management. Therefore, the Company has included these expenses along with the results of the Company's Retail Banking and Syndicated Commercial Loan operations, which do not meet the definition of a reportable segment, in the Other category. Historical periods have been restated to conform to this presentation.

Intersegment eliminations shown in the table below relate to the credit allocated to the Retail Banking operations for operating funds provided to the two reportable segments.

	Commercial Real Estate	Residential Real Estate	Other	Intersegment Eliminations	Total Consolidated
(Thousands of dollars)					
Year ended December 31, 2004					
Total revenues	\$ 303,833	\$ 836,222	\$ 182,026	\$(167,527)	\$ 1,154,554
Net interest income	198,420	259,184	11,155		468,759
Provision for loan losses	1,948	4,439	455		6,842
Net gain on whole loan sales and securitizations		437,351			437,351
Mortgage servicing rights amortization		(10,202)			(10,202)
Compensation	(32,817)	(126,856)	(84,948)		(244,621)
Other non-interest expense	(14,427)	(36,489)	(44,337)		(95,253)
Income before income taxes	162,140	547,091	(107,561)		601,670
Total consolidated assets	3,349,272	5,510,080	1,246,644		10,105,996
Year ended December 31, 2003					
Total revenues	\$ 313,054	\$ 575,764	\$ 154,399	\$(145,080)	\$ 898,137
Net interest income	204,473	164,275	(5,038)		363,710
Provision for loan losses	(53,816)	(10,772)	(33,674)		(98,262)
Net gain on whole loan sales and securitizations		307,644			307,644
Mortgage servicing rights amortization		(1,050)			(1,050)
Compensation	(26,269)	(92,281)	(53,774)		(172,324)
Other non-interest expense	(14,145)	(24,105)	(31,339)		(69,589)
Income before income taxes	76,215	364,807	(76,901)		364,121
Total consolidated assets	3,833,480	4,478,961	1,212,846		9,525,287
Year ended December 31, 2002					
Total revenues	\$ 290,527	\$ 339,389	\$ 170,863	\$(158,233)	\$ 642,546
Net interest income	166,878	86,717	(7,662)		245,933
Provision for loan losses	(35,687)	(1,654)	(70,777)		(108,118)
Net gain on whole loan sales and securitizations		185,036			185,036
Compensation	(20,303)	(39,809)	(40,858)		(100,970)
Other non-interest expense	(16,752)	(18,265)	(21,115)		(56,132)
Income before income taxes	42,115	213,923	(79,148)		176,890
Total consolidated assets	3,594,575	2,103,808	976,923		6,675,306

Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note Y Earnings Per Share**

Earnings per share have been computed based on the weighted-average number of shares. The following table sets forth the computation of basic and diluted earnings per share.

	2004	2003	2002
(In thousands, except per share data)			
Income from continuing operations (numerator for basic earnings per share)	\$ 353,756	\$ 211,953	\$ 104,077
Effect of dilutive securities:			
LYONs	19	78	109
Income from continuing operations available to common stockholders after assumed conversions (numerator for diluted earnings per share)	\$ 353,775	\$ 212,031	\$ 104,186
Weighted-average shares (denominator for basic earnings per share)	71,050	69,993	67,009
Effect of dilutive securities using the treasury stock method for restricted stock and stock options:			
Restricted stock	1,507	1,156	
Employee benefit plans	915		
Stock options	141	44	
LYONs	39	44	205
Dilutive potential common shares	2,602	1,244	205
Adjusted weighted-average shares and assumed conversions (denominator for diluted earnings per share)	73,652	71,237	67,214
Basic earnings per share from continuing operations	\$ 4.98	\$ 3.03	\$ 1.55
Diluted earnings per share from continuing operations	\$ 4.80	\$ 2.98	\$ 1.55

For additional disclosures regarding LYONs, stock options and restricted stock see Notes N and Q.

Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note Z Quarterly Results of Operations (Unaudited)**

	Three Month Periods Ended			
	March 31,	June 30,	September 30,	December 31,
(Thousands of dollars, except per share data)				
2004				
Interest income:				
Interest and fee income on loans:				
Residential	\$ 88,090	\$ 95,003	\$ 86,223	\$ 96,879
Commercial	76,304	73,087	72,405	69,177
Other	109	165	111	111
	<u>164,503</u>	<u>168,255</u>	<u>158,739</u>	<u>166,167</u>
Interest income other	2,204	2,774	4,165	4,517
	<u>166,707</u>	<u>171,029</u>	<u>162,904</u>	<u>170,684</u>
Interest expense:				
Deposits	35,034	35,024	38,037	43,390
FHLB advances	7,417	8,331	4,787	4,557
Warehouse lines of credit	125	125	501	199
Senior Notes	4,208	3,765	3,691	3,683
Junior Subordinated Debentures	2,320	2,319	2,320	2,319
Other	40	60	64	249
	<u>49,144</u>	<u>49,624</u>	<u>49,400</u>	<u>54,397</u>
Net interest income	117,563	121,405	113,504	116,287
Provision for loan losses	16,399	146	(10,309)	(13,078)
Net interest income after provision for loan losses	101,164	121,259	123,813	129,365
Non-interest income:				
Net gain (loss) on:				
Whole loan sales and securitizations of residential real estate loans	122,196	127,050	89,366	98,739
Sale of residual interests in securitized loans				
Whole loan sales of other loans				
Extinguishment of debt		(53)		(52)
Loan servicing income	6,539	7,630	11,712	10,586
Mortgage servicing rights amortization and impairment	(1,370)	(4,514)	(3,126)	(3,234)
Impairment on residual assets				(985)
Other	6,634	6,524	2,961	6,627
	<u>133,999</u>	<u>136,637</u>	<u>100,913</u>	<u>111,681</u>
Non-interest expense:				
Compensation and related	67,184	68,046	50,950	58,441
Occupancy	3,526	3,552	4,404	5,805
Other	22,760	23,249	24,474	24,770
	<u>93,470</u>	<u>94,847</u>	<u>79,828</u>	<u>89,016</u>
Income before income taxes	141,693	163,049	144,898	152,030

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Income tax expense	59,030	67,671	59,778	61,435
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income from continuing operations	82,663	95,378	85,120	90,595
Discontinued insurance operations, net of tax				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 82,663	\$ 95,378	\$ 85,120	\$ 90,595
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Per Share Data:				
Basic:				
Net income from continuing operations	\$ 1.16	\$ 1.32	\$ 1.18	\$ 1.27
Discontinued insurance operations				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 1.16	\$ 1.32	\$ 1.18	\$ 1.27
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted:				
Net income from continuing operations	\$ 1.12	\$ 1.30	\$ 1.15	\$ 1.22
Discontinued insurance operations				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 1.12	\$ 1.30	\$ 1.15	\$ 1.22
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Table of Contents**FREMONT GENERAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Three Month Periods Ended			
	March 31,	June 30,	September 30,	December 31,
(Thousands of dollars, except per share data)				
2003				
Interest income:				
Interest and fee income on loans:				
Residential	\$ 44,580	\$ 49,812	\$ 60,019	\$ 80,902
Commercial	73,974	74,379	77,220	78,187
Other	82	198	136	99
	<u>118,636</u>	<u>124,389</u>	<u>137,375</u>	<u>159,188</u>
Interest income other	2,497	1,289	1,069	1,430
	<u>121,133</u>	<u>125,678</u>	<u>138,444</u>	<u>160,618</u>
Interest expense:				
Deposits	33,371	30,913	30,402	33,105
FHLB advances	4,847	5,989	7,084	7,247
Warehouse lines of credit			176	997
Senior Notes	5,193	4,630	4,277	4,277
Preferred Securities	2,250	2,250	2,250	2,250
Other	267	160	31	197
	<u>45,928</u>	<u>43,942</u>	<u>44,220</u>	<u>48,073</u>
Net interest income	75,205	81,736	94,224	112,545
Provision for loan losses	22,920	27,609	29,407	18,326
	<u>52,285</u>	<u>54,127</u>	<u>64,817</u>	<u>94,219</u>
Net interest income after provision for loan losses	52,285	54,127	64,817	94,219
Non-interest income:				
Net gain (loss) on:				
Whole loan sales and securitizations of residential real estate loans	55,973	71,933	83,699	96,039
Sale of residual interests in securitized loans	17,503			
Whole loan sales of other loans	4	670		
Extinguishment of debt	93	(68)		(26)
Loan servicing income	1,986	1,885	2,492	4,371
Mortgage servicing rights amortization and impairment			(294)	(756)
Impairment on residual assets				
Other	3,141	5,385	3,619	4,615
	<u>78,700</u>	<u>79,805</u>	<u>89,516</u>	<u>104,243</u>
Non-interest expense:				
Compensation and related	38,682	36,136	38,731	58,775
Occupancy	2,875	2,906	2,694	3,203
Other	18,602	15,305	18,436	17,246
	<u>60,159</u>	<u>54,347</u>	<u>59,861</u>	<u>79,224</u>
Income before income taxes	70,826	79,585	94,472	119,238
Income tax expense	29,250	32,798	38,979	51,141

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Net income from continuing operations	41,576	46,787	55,493	68,097
Discontinued insurance operations, net of tax		44,308		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 41,576	\$ 91,095	\$ 55,493	\$ 68,097
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Per Share Data:				
Basic:				
Net income from continuing operations	\$ 0.60	\$ 0.67	\$ 0.79	\$ 0.97
Discontinued insurance operations		0.63		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 0.60	\$ 1.30	\$ 0.79	\$ 0.97
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted:				
Net income from continuing operations	\$ 0.60	\$ 0.66	\$ 0.77	\$ 0.94
Discontinued insurance operations		0.62		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 0.60	\$ 1.28	\$ 0.77	\$ 0.94
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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