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CHESAPEAKE FINANCIAL SHARES INC
Form 10-Q
May 14, 2001

U. S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from ___ to ___

Commission file number 0-18543

CHESAPEAKE FINANCIAL SHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia

54-1210845

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

97 N. Main St., Kilmarnock, VA 22482

(Address of principal executive offices) (Zip Code)

(804) 435-1181

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last
report.)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 12, 13 or 15(d) of the Securities and Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No ___

Indicate the number of shares outstanding of each of the issuer's
classes of common stock as of May 1, 2001.

Class -----	Outstanding at May 1, 2001 -----
Common Stock, voting, \$5.00 par value	1,233,560
Common Stock, non-voting, \$5.00 par value	0

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CHESAPEAKE FINANCIAL SHARES, INC.

FORM 10-QSB

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PART I. Item 1. - FINANCIAL INFORMATION
Chesapeake Financial Shares, Inc.
Consolidated Balance Sheets

March 31,
2001

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ASSETS	(Unaudited)	
Cash and due from banks.....	\$ 9,598,003	\$ 8,
Securities available for sale		
U.S. Government agencies (book value of \$20,012,046		
-2001 and \$21,053,805-2000).....	20,270,609	21,
Obligations of state and political subdivisions (book value of		
\$15,131,832-2001 and \$15,110,437-2000).....	15,981,973	15,
Other Securities (book value \$2,511,245-2001 and		
\$2,551,294-2000).....	2,532,350	2,
Loans.....	162,678,812	158,
Less: Reserve for loan loss.....	(2,317,215)	(2,

Net loans.....	160,361,597	156,
Bank premises and equipment, net.....	5,442,285	5,
Accrued interest receivable.....	1,611,834	1,
Business Manager Assets.....	10,604,328	9,
Other assets.....	2,388,644	3,

Total assets.....	\$ 228,791,623	\$ 224,
	=====	

See accompanying notes to consolidated financial statements. Page: 1

PART I. Item 1. - FINANCIAL INFORMATION

Chesapeake Financial Shares, Inc.
Consolidated Balance Sheets

March 31,
2001

LIABILITIES AND SHAREHOLDERS' EQUITY

(Un

Deposits

Noninterest bearing deposits.....	\$ 26,833,89
Savings and interest bearing deposits.....	70,211,41
Certificates of deposit.....	102,905,13

 Total deposits..... 199,950,44

Federal funds purchased and FHLB advances.....	7,400,00
Accrued interest payable.....	367,14
Other liabilities.....	1,225,81
Note payable.....	814,45

 Total liabilities..... 209,757,86

Commitments and contingent liabilities

Shareholders' equity

Preferred stock, par value \$1 per share; authorized 50,000		
shares; none outstanding.....		
Common stock, voting.....		6,167,80
Common stock, non-voting.....		
voting	non-voting	

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	3/31/01	12/31/00	3/31/01	12/31/00	
	-----	-----	-----	-----	
Shares auth.	2,000,000	2,000,000	635,000	635,000	
Shares o/s..	1,233,560	1,229,840	0	0	
Paid in capital.....					152,02
Accumulated other comprehensive income.....					754,43
Retained earnings.....					11,959,50

Total shareholders' equity.....					19,033,75

Total liabilities and Shareholders' equity.....					\$ 228,791,62
					=====

See accompanying notes to consolidated financial statements. Page: 2

PART I. Item 1. - FINANCIAL INFORMATION (cont'd.)

Chesapeake Financial Shares, Inc.
Consolidated Statements of Earnings

Three Months Ended
March 31,
2001 2000

	(Unaudited)	

Interest Income		
Interest and fees on loans.....	\$ 3,689,164	\$ 2,995,157
Interest on federal funds sold.....	494	1,375
Interest on time deposits with banks.....	7,632	2,692
Interest on U.S. Treasury securities.....	0	0
Interest on U.S. Agency Obligations.....	354,853	434,717
Interest on obligations of state and political subs.....	236,563	223,322
	-----	-----
Total interest income.....	4,288,706	3,657,263
Interest Expense		
Interest on savings and interest bearing deposits.....	493,268	540,982
Interest on certificates of deposit.....	1,528,807	1,072,221
Interest on federal funds purchased.....	127,480	77,820
Other interest expense.....	11,266	7,760
	-----	-----
Total interest expense.....	2,160,821	1,698,783
	-----	-----
Net interest income.....	2,127,885	1,958,480
Provision for loan losses.....	195,000	65,124
	-----	-----
Net interest income after provision for loan losses.....	1,932,885	1,893,356
	-----	-----
Noninterest Income		
Income from fiduciary activities.....	219,669	222,910
Service charges on deposit accounts.....	197,225	161,677
Securities (losses) - net.....	(1,625)	0
Merchant card income.....	194,944	182,826
ATM income.....	55,386	56,357
Cash management income.....	436,721	353,352

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Other income.....	150,066	149,070
	-----	-----
Total noninterest income.....	1,252,386	1,126,192
	-----	-----
Noninterest Expense		
Salaries.....	890,852	852,293
Employee benefits.....	217,290	174,439
Occupancy expenses.....	383,545	393,756
Merchant card expense.....	161,111	159,308
ATM expense.....	58,375	60,618
Cash management expense.....	147,452	176,097
Other expenses.....	508,555	491,420
	-----	-----
Total noninterest expense.....	2,367,180	2,307,931
	-----	-----
Income before income taxes.....	818,091	711,617
Income taxes.....	196,187	170,144
	-----	-----
Net income.....	\$ 621,904	\$ 541,473
	=====	=====
Earnings per share, basic.....	\$ 0.51	\$ 0.44
Earnings per share, assuming dilution.....	\$ 0.49	\$ 0.42

See accompanying notes to consolidated financial statements. Page: 3

PART I. - FINANCIAL INFORMATION (cont'd.)
Chesapeake Financial Shares, Inc.
Consolidated Statements of Cash Flows

Cash flows from operating activities:	
Net income.....	.....
Adjustments to reconcile net income to net cash provided by (used for) operating activities:	
Depreciation and amortization.....	.....
Provision for loan losses.....	.....
Provision for cash management account losses.....	.....
(Accretion) discount and amortization of premiums, net.....	.....
Net (gain) loss on sale of securities.....	.....
Changes in assets and liabilities:	
Decrease (increase) in accr. interest receivable.....	.....
Decrease (increase) in other assets.....	.....
Increase (decrease) in accrued interest payable.....	.....
Increase (decrease) in other liabilities.....	.....
Net cash provided by (used for) operating activities.....	.....
Cash flows from investing activities:	
Purchases of securities available for sale.....	.....
Proceeds from sale of securities available for sale.....	.....
Proceeds from maturities of securities available for sale.....
Origination of loans available for sale.....

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Proceeds from sale of loans available for sale.....
 Net (increase) decrease in loans outstanding.....
 Net (increase) decrease in business manager assets.....
 Other capital expenditures.....
 Net cash provided by (used for) investing activities.....

Cash flows from financing activities:
 Net increase (decrease) in demand accounts, interest bearing demand
 deposit accounts and savings deposits.....
 Net increase (decrease) in certificates of deposit.....
 Net increase (decrease) in federal funds purchased.....
 Cash dividends.....
 Proceeds from issuance of voting common stock.....
 Acquisition of voting common stock.....
 Curtailment of long-term borrowings.....
 Net cash provided by (used for) financing activities.....
 Net (decrease) increase in cash and federal funds sold.....
 Cash and federal funds sold at beginning of period.....
 Cash and federal funds sold at end of period.....

See accompanying notes to consolidated financial statements. Page: 4

Statement of changes in Stockholder's Equity
 Chesapeake Financial Shares, Inc.
 Three Months Ended March 31, 2000
 (unaudited)

	Total	Comprehensive Income	Retained Earnings	Accumul Other C Inco
	-----	-----	-----	-----
Beginning balance	\$ 15,513,452		\$ 9,736,920	\$ (61
Comprehensive Income:				
Net Income	541,473	\$ 541,473	541,473	
Other comprehensive income, net of tax:				
Unrealized gain on securities available for sale; net of deferred income taxes of \$139,777	271,332	271,332		27
	-----	-----		-----
Total comprehensive income, net of tax:		\$ 812,805		
		=====		
Acquisition of common stock	(129,466)			
Issuance of common stock	44,790			
Dividends declared	(110,655)		(110,655)	
	-----		-----	-----
Ending balance	\$ 16,130,926		\$ 10,167,738	\$ (34
	=====		=====	=====

Statement of changes in Stockholder's Equity
 Chesapeake Financial Shares, Inc.
 Three Months Ended March 31, 2001
 (unaudited)

	Total	Comprehensive Income	Retained Earnings	Accumul Other C Inco
	-----	-----	-----	-----
Beginning balance	\$18,330,317		\$11,473,316	\$ 55
Comprehensive Income:				
Net Income	621,904	621,904	621,904	
Other comprehensive income, net of tax:				
Unrealized gain on securities available for sale; net of deferred income taxes of \$139,777	201,150	201,150		20
	-----	-----		-----
Total comprehensive income, net of tax:		\$ 822,054		
		=====		
Acquisition of common stock	(9,150)			
Issuance of common stock	26,250			
Dividends declared	(135,713)		(135,713)	
	-----		-----	-----
Ending balance	\$19,033,757		\$11,959,506	\$ 75
	=====		=====	=====

PART I. Item 1. - FINANCIAL INFORMATION (cont'd.) 3/01-10QSB
 Chesapeake Financial Shares, Inc.
 Notes to Consolidated Financial Statements

1. Chesapeake Financial Shares, Inc. ("CFS") owns 100% of Chesapeake Bank (the "Bank") and Chesapeake Investment Group, Inc. The Company conducts substantially all of its business activities through the Bank. The Company also operates Chesapeake Investment Group, Inc. and its subsidiaries Chesapeake Financial Group, Inc., Chesapeake Insurance Agency, Inc., d/b/a Chesapeake Investment Services, and Chesapeake Trust Company. The Bank also is the 100% owner of CNB Properties, Inc. The consolidated financial statements include the accounts of CFS and its wholly owned subsidiaries. All significant intercompany accounts have been eliminated .

2. The accounting and reporting policies of the registrant conform to generally accepted accounting principles and to the general practices within the banking industry. The interim financial statements have not been audited;

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however, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements have been included.

These financial statements should be read in conjunction with the financial statements and the footnotes included in the registrant's 2000 Annual Report to Shareholders.

3. The following data shows the amounts used in computing earnings per share and the effect on the weighted average number of shares of potential dilutive common stock. The potential common stock will not have a significant impact on net income.

	March 31, 2001	

Weighted average number of common shares, basic	1,231,126	
Effect of dilutive stock options	29,079	

Weighted number of common shares and dilutive potential common stock used in diluted EPS	1,260,205	
	=====	

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PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 3/01-10QSB
 Chesapeake Financial Shares, Inc.
 Management's Discussion and Analysis of Financial
 Condition or Plan of Operation (Unaudited)

A. Summary - liquidity and capital resources

Sufficient short-term assets are maintained at Chesapeake Financial Shares to meet cash needs anticipated by management. Management's primary sources of liquidity continue to be federal funds sold, short term borrowings from Federal Home Loan Bank Atlanta, securities maturing within one year, and principal payments from mortgage securities. The repayment and sale of loans also provides liquidity. The total of federal funds sold, securities maturing within one year, and estimated principal payments on mortgage-backed securities within one year at March 31, 2001 was approximately \$4,750,000, compared to \$5,109,000 one year ago and \$4,034,000 at December 31,2000.

The asset liquidity ratio at March 31, 2001 was 17.7%, compared with 25.3% one year ago. This ratio is arrived at by dividing net liquid assets (sum of total Cash and Due from Banks, including Federal Reserve, unpledged and over pledged portions of Investment Securities at market value, and federal funds sold less reserves required at the Federal Reserve Bank) by net liabilities (total liabilities excluding valuation reserves and capital). Management believes that this asset liquidity ratio combined with liability liquidity through the Federal Home Loan Bank and other lenders represents a sufficient level of liquidity to meet cash needs.

Management believes capital is adequate to meet current needs. Unencumbered capital (total capital net of accumulated other comprehensive income less intangibles plus reserves) as a percent of total adjusted assets (total assets less intangibles plus reserves) was 8.9% at March 31, 2001 and 8.7% at December 31, 2000, for CFS.

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Chesapeake Financial Shares and Chesapeake Bank must have a ratio of Tier 1 capital (common equity, retained earnings less certain goodwill) to risk-adjusted assets of at least 4.0%. At March 31, 2001 and December 31, 2000 the bank's ratio of Tier 1 risk-based capital to risk-adjusted assets was 9.0% and 9.1%, respectively. Total risk-based capital to risk weighted assets was 10.2% and 10.3% at March 31, 2001 and December 31, 2000, respectively. Tier one leverage capital was 8.4% and 7.6% at March 31, 2001 and December 31, 2000, respectively.

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PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 3/01-10QSB
Chesapeake Financial Shares, Inc.
Management's Discussion and Analysis of Financial
Condition or Plan of Operation (Unaudited)

B. Results of operations:

Earnings Summary:

Net income was \$621,904 for the three months ended March 31, 2001, compared with income of \$541,473 for the same period in 2000. On a fully diluted per share basis, the net profit was \$0.49 for the first three months of 2001. Earnings per share for the first quarter of 2000 were \$0.42. Net interest income before provision increased \$169,405 or 8.6% and noninterest income increased \$126,194 or 11.2%. The Company experienced a net increase in noninterest expense (which includes other expense) of only \$59,249 or 2.6%.

Net Interest Income:

Chesapeake Financial Shares' results of operation are significantly affected by its ability to manage effectively the interest rate sensitivity and maturity of its interest-earning assets and interest-bearing liabilities. At March 31, 2001, the Company's interest-earning assets exceeded its interest-bearing liabilities by approximately \$26.7 million, compared with \$26.7 million excess one year ago.

Net interest margins are 4.55% at March 31, 2001 compared to 4.67% at March 31, 2000. Margins had narrowed during the later part of 1998 and the first half of 1999 due to falling rates and the resulting compression of spreads as deposit rates hit floors. Margins had generally improved during the first half of 2000, but since then compression of margins actually occurred again as rates continued upward through the end of the year and the competition with the brokerage firms for deposits intensified. In the current falling rate environment, management expects margins to improve during the year.

There has been significant growth in interest bearing deposits during the last year in all trade areas of the bank. There has been little growth in noninterest bearing deposits and a 16.6% growth in interest bearing accounts, including certificates. Generally, deposits have been easier to attract this quarter as a result of the stock market volatility, however, large banks are currently buying market share in this attractive rate environment.

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PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 3/01-10QSB
Chesapeake Financial Shares, Inc.
Management's Discussion and Analysis of Financial
Condition or Plan of Operation (Unaudited)

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Provision for Loan Losses:

The loan loss provision is a charge against earnings necessary to maintain the reserve for loan losses at a level consistent with management's evaluation of the credit quality and risk adverseness of the portfolio. Management makes a quarterly evaluation as to the adequacy of the current loan loss reserve. Management's detailed analysis as of March 31, 2001 supports the adequacy of the current loan loss level of \$2.3 million.

Chesapeake Bank's management maintains a reserve for loan loss that they feel represents a conservative estimate of potential losses in the Bank's loan portfolio. The methodology incorporates subjective factors into the evaluation of the adequacy of the ALLL such as:

The effect of volume and trends in delinquencies and nonaccrual loans.

The effect of trends in portfolio volume, maturity, and composition.

An estimate of future loss on all significant loans and assessment of underwriting and lending policies and procedures including those for charge off, collection and recovery.

Experience, ability and depth of lending management and staff. The effect of national and local economic conditions and downturns in specific industries.

Concentrations of credit that might affect loss experience across one or more components of the portfolio.

The results of any independent reviews of the portfolio.

The loan loss reserve is 1.4% of gross loans as of March 31, 2001 and 1.3% as of December 31, 2000.

Noninterest Income:

Noninterest income is up 11.2% or \$126,194 from the same period last year. Chesapeake Bank's Business Manager product generated \$436,721 in gross revenue for the first three months ended March 31, 2001, compared to the same period last year of \$353,352. Managed assets in the business manager program were \$10,964,328 at March 31, 2001, and \$8,941,946 at March 31, 2000. Service Charges on deposit accounts were up 22.0%, or \$35,548, from one year ago due to increased account volume. The merchant card program has generated \$194,944 or 6.6% more in gross revenue through March of this year than in the same period last year due.

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PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 3/01-10QSB
Chesapeake Financial Shares, Inc.
Management's Discussion and Analysis of Financial
Condition or Plan of Operation (Unaudited)

Noninterest Expenses:

Employee salary expense amounted to \$890,852 and \$852,293 for the three months ended March 31, 2001 and 2000, respectively. Benefits expense is up 24.6% or \$42,851 from March 31, 2000. These increases are directly related to new hires as market share has increased and due to cost increase in the human resource and benefits areas. Other expenses are up only 3.5%, or \$17,135, over the same period last year.

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PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 3/01-10QSB
 Chesapeake Financial Shares, Inc.
 Management's Discussion and Analysis of Financial
 Condition or Plan of Operation (Unaudited)

Assets and Loans:

At March 31, 2001, Chesapeake Financial Shares had total assets of \$228.8 million, up 2.0% from \$224.2 million at December 31, 2000 and up 12.5% from \$203.5 million of one year ago. Management has budgeted for an 8.0% growth in total assets for 2001.

Total loans (gross) at March 31, 2001 were \$162.7 million, representing an increase of 2.6% from December 31, 2000, when loans were \$158.5 million. Chesapeake Bank's loan quality is good as the following table shows. Management is confident that no serious delinquency trends are developing.

	3/31/01	12/31/00
	-----	-----
Nonaccrual loans	\$ 574,511	\$ 562,813
90 days past due	43,188	28,234
Restructured loans	0	0
	-----	-----
Totals	\$ 617,699	\$ 591,047

Management is also confident there will be no loss incurred as the Bank is well secured on these assets. There are no impaired loans outstanding at the end of either period.

Charged off loans through March 31, 2001, amounted to \$3,032. Charged off loans through March 31, 2000 amounted to \$4,393. Recoveries through March 31, 2001 were \$225 as compared to \$1,704 as of March 31, 2000.

Concentrations of credit in loans are compiled quarterly by management and reviewed with the Board of Director's Loan Review Committee. There have been no material changes in the concentrations of credit within the past three months that would warrant above average additions to the reserve. The Bank's only concentrations of credit greater than 70% of capital are individual consumer (235% of capital) and residential real estate (82% of total capital). Bank management feels that the current levels are consistent with the objectives of the Bank and do not represent unwarranted risk.

The Bank's Other Real Estate Owned (OREO) portfolio currently has no properties. The Bank has repossessed assets with a carrying value of \$2,224.

Deposits:

Deposits were \$ 200.0 million at March 31, 2001 and \$194.0 million at December 31, 2000. Deposits were \$174.5 million at March 31, 2000. The Bank's mix of deposit dollars has changed from March 31, 2000 with no significant increase in noninterest bearing balances and a 16.6% increase in savings and interest bearing deposits and certificates of deposit during the same period.

PART II. Item 1. - OTHER INFORMATION 3/01-10QSB
 Chesapeake Financial Shares, Inc.
 Legal Proceedings

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None to report

PART II. Item 2. - OTHER INFORMATION
Chesapeake Financial Shares, Inc.
Changes in Securities

None to report.

PART II. Item 3. - OTHER INFORMATION
Chesapeake Financial Shares, Inc.
Default Upon Senior Securities

None to report.

PART II. Item 4. - OTHER INFORMATION
Chesapeake Financial Shares, Inc.
Submission of Matters to a Vote of Security Holders

Chesapeake Financial Shares' annual meeting of shareholders was held on Friday, April 6, 2001 in Irvington, Virginia. We have previously forwarded to the Commission copies of the letter to shareholders, the notice of the meeting, the proxy statement, and the proxy. Over 90% of the shareholders were represented at the meeting in person or by proxy with over 89% voting in favor of the proposals submitted.

PART II. Item 5. - OTHER INFORMATION
Chesapeake Financial Shares, Inc.
Other Information

During the fourth quarter of 2000, the Company satisfactorily completed a Combined Safety and Soundness Examination performed by the Federal Reserve Bank of Richmond. As of December 2000, the Bank and the Company satisfactorily completed Transfer Agent Examination, also performed by the Federal Reserve Bank. As a result of these examinations management is not aware of any current recommendations of the regulatory authorities which, if they were implemented, would have a material effect on liquidity, capital resources or operations of the Bank or Holding Company.

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PART II. Item 6. - OTHER INFORMATION 3/01-10QSB
Chesapeake Financial Shares, Inc.
Exhibits and Reports on Form 8-K
(Unaudited)

(a)	Exhibit 2	Plan of acquisition, reorganization, arrangement, liquidation or succession	N/A
	Exhibit 4	Instruments defining the rights of security holders, including indentures	N/A
	Exhibit 10	Material contracts	N/A
	Exhibit 11	Statement re: computation of earnings per share	N/A
	Exhibit 15	Letter re: unaudited interim financial information	N/A

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Exhibit 18	Letter re: change in accounting principles	N/A
Exhibit 19	Report furnished to security holders	N/A
Exhibit 22	Published report regarding matters submitted to vote of security holders	Previously Fil
Exhibit 23	Consents of experts and counsel	N/A
Exhibit 24	Power of attorney	N/A
Exhibit 99	Additional exhibits	N/A

(b) No filings were made on Form 8-K for the period.

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SIGNATURES

Chesapeake Financial Shares, Inc.

SEC 10-QSB 3/01

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.

Chesapeake Financial Shares, Inc.

(Registrant)

05/08/01

(Date)

/s/ Douglas D. Monroe, Jr.

(Signature)

Douglas D. Monroe, Jr.
Chairman and Chief Executive Officer

05/08/01

(Date)

/s/ John H. Hunt, II

(Signature)

John H. Hunt, II
Secretary and Chief Financial Officer

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