LANDAMERICA FINANCIAL GROUP INC
Form 10-Q
August 13, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2001 Commission File No. 1-13990

LANDAMERICA FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Virginia	54-1589611
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 Gateway Centre Parkway Richmond, Virginia	23235-5153
(Address of principal executive offices)	(Zip Code)

(804) 267-8000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, No Par Value 18,563,575 August 10, 2001

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)
(Unaudited)

ASSETS	June 30, 2001	Dece
INVESTMENTS:		
Fixed maturities available-for-sale - at fair value (amortized cost: 2001 - $838,677; 2000 - $800,504)	$ 839,985	$
Equity securities - at fair value (cost: 2001 - $4,293; 2000 - $4,285)	3,243	
Mortgage loans (less allowance for doubtful accounts: 2001 - $246; 2000 - $139)	34,409	
Invested cash	66,683	
Total Investments	944,320	

CASH	35,331
NOTES AND ACCOUNTS RECEIVABLE:	
Notes (less allowance for doubtful accounts: 2001 - $3,640; 2000 - $2,230)	10,724
Premiums (less allowance for doubtful accounts: 2001 - $8,335; 2000 - $9,945)	56,036
Income tax recoverable	-
Total Notes and Accounts Receivable	66,760
PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2001 - $110,343; 2000 - $92,715)	67,095
TITLE PLANTS	92,393
GOODWILL (less accumulated amortization: 2001 - $36,576; 2000 - $32,072) (Note 4)	221,263
DEFERRED INCOME TAXES	137,651
OTHER ASSETS	131,309
Total Assets	$ 1,696,122

See accompanying notes.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)
(Unaudited)

LIABILITIES	June 30, 2001	Dec
POLICY AND CONTRACT CLAIMS	$ 557,139	$
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	202,080	
FEDERAL INCOME TAXES	6,193	
NOTES PAYABLE	209,159	
OTHER	18,238	
Total Liabilities	992,809	

COMMITMENTS AND CONTINGENCIES (Note 3)

SHAREHOLDERS' EQUITY

Preferred stock, no par value, authorized 5,000,000 shares, no shares of Series A Junior Participating Preferred Stock issued or outstanding; shares of 7% Series B Cumulative Convertible Preferred Stock issued and outstanding: 2001 - 0; 2000 - 2,200,000	-	
Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2001 - 18,375,326; 2000 - 13,518,319	517,053	
Accumulated other comprehensive income (loss)	167	
Retained earnings	186,093	
Total Shareholders' Equity	703,313	
Total Liabilities and Shareholders' Equity	$ 1,696,122	$ 1

See accompanying notes.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000
(In thousands of dollars except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2001	2000	Six M J 2001
REVENUES			
Title and other operating revenues:			
Direct operations	$ 269,819	$ 202,872	$ 473,60
Agency operations	271,307	251,331	493,61
	541,126	454,203	967,22
Investment income	12,864	12,647	25,78
Loss on sales of investments	(368)	(270)	(77
	553,622	466,580	992,22
EXPENSES			
Salaries and employee benefits	165,708	128,336	306,58
Agents' commissions	213,932	196,456	388,55

Provision for policy and contract claims	21,310	20,016	38,01
Interest expense	3,315	3,359	6,98
General, administrative and other	104,802	91,538	197,16
	509,067	439,705	937,29
INCOME BEFORE INCOME TAXES	44,555	26,875	54,93
INCOME TAX EXPENSE (BENEFIT)			
Current	18,350	7,471	18,53
Deferred	(2,310)	1,668	1,23
	16,040	9,139	19,77
NET INCOME	28,515	17,736	35,15
DIVIDENDS - PREFERRED STOCK	-	(1,925)	(14
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 28,515	$ 15,811	$ 35,01
NET INCOME PER COMMON SHARE	$ 1.58	$ 1.18	$ 2.1
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	18,056	13,348	16,61
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 1.54	$ 0.97	$ 1.8
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION	18,535	18,242	18,56

See accompanying notes.

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2001 AND 2000
(In thousands of dollars)
(Unaudited)

	2001	
Cash flows from operating activities:		
Net income	$ 35,156	$
Depreciation and amortization	17,140	
Amortization of bond premium	1,085	
Realized investment losses	777	
Deferred income tax	1,265	
Change in assets and liabilities, net of businesses acquired:		
Notes receivable	287	
Premiums receivable	(19,179)	

Income taxes receivable/payable	10,672	
Policy and contract claims	341	
Accounts payable and accrued expenses	23,399	
Other	(11,381)	
Net cash provided by operating activities	59,562	
Cash flows from investing activities:		
Purchase of property and equipment, net	(17,783)	
Purchase of business, net of cash acquired	(2,779)	
Change in cash surrender value	(1,494)	
Cost of investments acquired:		
Fixed maturities - available-for-sale	(225,921)	
Equity securities	(8)	
Mortgage loans	(27,057)	
Proceeds from investment sales or maturities:		
Fixed maturities - available-for-sale	185,885	
Mortgage loans	2,300	
Net cash used in investing activities	(86,857)	
Cash flows from financing activities:		
Proceeds from the sale of common shares	1,084	
Cost of common shares repurchased	-	
Dividends paid	(1,906)	
Proceeds from issuance of notes payable	10,000	
Payments on notes payable	(3,220)	
Net cash provided by (used in) financing activities	5,958	
Net decrease in cash and invested cash	(21,337)	
Cash and invested cash at beginning of period	123,351	
Cash and invested cash at end of period	$ 102,014	$

See accompanying notes.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2001 AND 2000
(In thousands of dollars except per share amounts)
(Unaudited)

	Preferred Stock Shares	Preferred Stock Amounts	Common Stock Shares	Common Stock Amounts	Accumula Other Comprehen Income (L
Balance - December 31, 1999	2,200,000	$ 175,700	13,680,421	$ 342,138	$(31,13
Net income	-	-	-	-	
Unrealized gain on securities	-	-	-	-	1,08

Comprehensive income	-	-	-	-	
Common stock issued	-	-	15,895	666	
Common stock retired	-	-	(287,300)	(4,906)	
Preferred dividends (7%)	-	-	-	-	
Common dividends ($0.10/share)	-	-	-	-	
Balance - June 30, 2000	2,200,000	$ 175,700	13,409,016	$ 337,898	$(30,04
Balance - December 31, 2000	2,200,000	$ 175,700	13,518,319	$ 340,269	$ (4,71
Net income	-	-	-	-	
Unrealized gain on securities	-	-	-	-	4,87
Comprehensive income	-	-	-	-	
Common stock issued	-	-	32,448	1,084	
Preferred stock conversion	(2,200,000)	(175,700)	4,824,559	175,700	
Preferred dividends (7%)	-	-	-	-	
Common dividends ($0.10/share)	-	-	-	-	
Balance - June 30, 2001	-	$ -	18,375,326	$ 517,053	$ 16

See accompanying notes.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars except per share amounts)

1. Interim Financial Information

The unaudited consolidated financial information included in this report has been prepared in conformity with the accounting principles and practices reflected in the consolidated financial statements included in the Form 10-K for the year ended December 31, 2000 filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934. This report should be read in conjunction with the aforementioned Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of this information have been made. The results of operations for the interim periods are not necessarily indicative of results for a full year.

Certain 2000 amounts have been reclassified to conform to the 2001 presentation.

2. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Numerator:				
Net income - numerator for diluted earnings per share	$28,515	$17,736	$35,156	$15,686
Less preferred dividends	-	1,925	145	3,850
Numerator for basic earnings per share	$28,515	$15,811	$35,011	$11,836
Denominator:				
Weighted average shares - denominator for basic earnings per share	18,056	13,348	16,618	13,395
Effect of dilutive securities:				
Assumed weighted average conversion of preferred stock	275	4,825	1,709	4,825
Employee stock options	204	69	241	66
Denominator for diluted earnings per share	18,535	18,242	18,568	18,286
Basic earnings per common share	$ 1.58	$ 1.18	$ 2.11	$ 0.88
Diluted earnings per common share	$ 1.54	$ 0.97	$ 1.89	$ 0.86

3. Commitments and Contingencies

For additional information, see Pending Legal Proceedings on pages F-29, F-30 and F-31 and Legal Proceedings on pages 13, 14 and 15 of the Form 10-K for the fiscal year ended December 31, 2000, Legal Proceedings on page 13 of the Form 10-Q for the quarter ended March 31, 2001, and Legal Proceedings on page 14 of this Form 10-Q.

4. Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142,"Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires that all business combinations be accounted for under the purchase method. The statement further requires separate recognition of intangible assets that meet one of two criteria. The statement applies to all business combinations initiated after June 30, 2001.

SFAS No. 142 requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. The statement also provides that goodwill should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. Existing goodwill will continue to be amortized through the remainder of 2001 at which time amortization will cease and the Company will perform a transitional goodwill impairment test. SFAS No. 142 is effective for the fiscal periods beginning after December 15, 2001. The Company is currently evaluating the impact of the new accounting standards on existing goodwill and other intangible assets. The ultimate impact of the new accounting standards has yet to be determined.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Operating Revenues

Operating revenues for the second quarter of 2001 were $541.1 million, compared to $454.2 million in the second quarter of 2000. For the first six months of 2001, operating revenues were $967.2 million, compared to $848.0 million in the corresponding 2000 period. These increases are primarily the result of decreases in mortgage interest rates and the resultant increase in the amount of residential refinancing activity in 2001 compared to 2000.

Investment Income

Investment income in the first six months of 2001 was $25.8 million compared to $25.4 million in the first six months of 2000. This increase was attributable to an increase in the average amounts invested offset by a decrease in yields as the company transitioned a portion of its fixed maturity portfolio from taxable to non-taxable investments.

Expenses

Operating expenses for the second quarter of 2001 were $509.1 million compared to $439.7 million in the second quarter of 2000. Salary and related expenses increased from $128.3 million in the 2000 period to $165.7 million in the 2001 period, which constitutes an increase of 29%. This increase resulted from an increase in average staffing levels of 8,200 in the second quarter of 2000 to 9,200 in the second quarter 2001. Salary expense also increased in the 2001 period over the 2000 period due to incentive pay and overtime pay related to the increased business volumes. Agents' commissions increased $17.5 million from the second quarter of 2000, which is in direct proportion to the increase in agency revenues. General, administrative and other expenses increased $13.3 million for the quarter from the comparable period in 2000.

Operating expenses for the first six months of 2001 were $937.3 million compared to $849.5 million for the comparable period of 2000. Salary and related expenses were $306.6 million during the first six months of 2001 compared to $249.4 million in the same period of 2000, an increase of $57.2 million of which $40.0 million was related to incentive and overtime pay related to increased business volumes. In addition, this increase for the six month period was due to an increase in agents commissions, up $13.8 million when compared to the same period of 2000 which was in direct proportion to the increase in agency premiums. General, administrative and other expenses also increased $16.0 million when compared to the prior year.

The provision for policy and contract claims was 3.9% of operating revenue for the second quarter and first half of 2001 compared to 4.4% for the comparable periods of 2000. The decreased rate reflects recognition of improvement of the Company's loss experience.

Net Income

LandAmerica reported net income of $28.5 million, or $1.54 per share on a diluted basis, for the second quarter of 2001, compared to net income of $17.7 million, or $0.97 per share on a diluted basis, for the second quarter of 2000. The 2000 quarter included an after-tax loss on sales of investments of $178 thousand, or $0.01 per diluted share, compared to an after-tax loss of $235 thousand, or $0.01 per diluted share, in the corresponding quarter of 2001.

For the six months ended June 30, 2001, net income was $35.2 million, or $1.89 per share on a diluted basis, compared to $15.7 million, or $0.86 per share on a diluted basis, for the first six months of 2000. The first half of 2001 included an after-tax loss on sales of investments of $497 thousand, or $0.03 per diluted share, compared to a first half 2000 after-tax loss on sales of investments of $121 thousand, or $0.01 per diluted share.

Liquidity and Capital Resources

Cash provided by operating activities for the six months ended June 30, 2001 was $59.6 million. As of June 30, 2001, the Company held cash and invested cash of $102.0 million and fixed maturity securities of $840.0 million.

In addition, the Company has $32.0 million of unused availability under a credit facility at June 30, 2001.

During February, March and June 2001, 2.2 million shares of the Company's preferred stock were converted to common stock. This conversion will decrease the amount of preferred dividends paid by $7.7 million on an annual basis. The new common shares will require dividends at the same rate paid on all other outstanding common shares.

The Company believes that it will have sufficient liquidity and capital resources to meet both its short and long term capital needs.

Interest Rate Risk

The following table provides information about the Company's financial instruments that are sensitive to changes in interest rates. For investment securities, the table presents principal cash flows and related weighted interest rates by expected maturity dates. Actual cash flows could differ from the expected amounts.

Interest Rate Sensitivity
Principal Amount by Expected Maturity
Average Interest Rate

(dollars in thousands)

	2001	2002	2003	2004	2005	
Assets:						
Taxable available-for-sale securities:						
Book value	$ 6,233	$ 28,367	$ 42,647	$ 29,978	$ 48,833	$
Average yield	6.9%	6.1%	5.9%	6.8%	6.9%	
Non-taxable available-for-sale securities:						
Book value	$ 1,262	$ 8,120	$ 16,269	$ 20,132	$ 35,045	$
Average yield	4.4%	4.4%	5.0%	4.8%	4.4%	
Preferred stock:						
Book value	$ -	$ -	$ -	$ -	$ -	$
Average yield	-	-	-	-	-	

The Company also has variable rate long-term debt of $205.5 million bearing interest at 4.05% at June 30, 2001. A .25% change in the interest rate would affect income before income taxes by approximately $0.5 million annually.

Change in Accounting for Goodwill

In the fourth quarter of 2000 the Company elected to change its accounting policy for assessing the recoverability of goodwill from one based on undiscounted cash flows to one based on discounted cash flows. The Company believes that using the discounted cash flow approach to assess recoverability is a preferable policy as it is consistent with the methodology used by the Company to evaluate investment and acquisition decisions. In connection with this change, the Company incurred a non-cash pre-tax charge of $172.5 million related to the goodwill acquired through the 1998 acquisition of Commonwealth and Transnation. The discount rate used in determining discounted cash flows was 13.5% representing the Company's cost of capital. In originally evaluating this acquisition, the Company used discount rates ranging from 12% to 16% for discounting anticipated future cash flows. After recording this charge the remaining goodwill related to the Commonwealth and Transnation acquisition was $95.4 million.

Forward-Looking and Cautionary Statements

Certain information contained in this Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Among other things, these statements relate to

the financial condition, results of operation and business of the Company. In addition, the Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in other filings with the Securities and Exchange Commission and in its reports to shareholders. These forward-looking statements are generally identified by phrases such as "the Company expects," "the Company believes" or words of similar import. These forward-looking statements involve certain risks and uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Further, any such statement is specifically qualified in its entirety by the following cautionary statements.

In connection with the title insurance industry in general, factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include the following: (i) the costs of producing title evidence are relatively high, whereas premium revenues are subject to regulatory and competitive restraints; (ii) real estate activity levels have historically been cyclical and are influenced by such factors as interest rates and the condition of the overall economy; (iii) the value of the Company's investment portfolio is subject to fluctuation based on similar factors; (iv) the title insurance industry may be exposed to substantial claims by large classes of claimants and (v) the industry is regulated by state laws that require the maintenance of minimum levels of capital and surplus and that restrict the amount of dividends that may be paid by the Company's insurance subsidiaries without prior regulatory approval.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The information required by this Item is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk" in Item 2 of this report.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Commonwealth Land Title Company, a subsidiary of the Company, was recently served with a complaint in a putative class action suit filed on May 21, 2001 in the Superior Court of Los Angeles, California, Central District, entitled Thomas Branick and Ardra Campbell v. First American Title, et al. (Case No. BC 250923). The complaint, which names "Commonwealth Title" and numerous other title companies and lenders as defendants, purports to allege causes of action for unfair competition (Cal. Bus. & Prof. Codess.17200, et seq.) and unfair business practices (Cal. Bus. & Prof. Codess.1750, et seq.). Although the complaint contains no specific allegations against "Commonwealth Title", it generally alleges that the named defendants improperly charged recordation and other fees. The complaint prays for relief in the form of statutory penalties, restitution, injunctive relief, costs of suit and attorneys' fees. The complaint was only recently served, and no responsive pleadings have yet been filed, nor has discovery been propounded. Accordingly, because the suit is in its very early stages, no estimate of liability can yet be made.

Item 4. Submission of Matters to a Vote of Security Holders

a) The Annual Meeting of Shareholders of the Company (the "Meeting") was held on May 22, 2001.

c) At the Meeting, the shareholders elected four directors to serve three-year terms and one director to serve a one-year term. The voting with respect to each nominee was as follows:

Nominee	Term	Votes For	Votes Withheld	Broker Non-Votes
Theodore L. Chandler, Jr.	3	16,554,797	78,699	0
Charles H. Foster, Jr.	3	16,554,340	79,156	0
Robert T. Skunda	3	16,551,079	82,417	0
Thomas G. Snead, Jr.	1	16,548,855	84,641	0
Marshall B. Wishnack	3	16,555,797	77,699	0

The terms of office of the following directors continued after the meeting: Janet A. Alpert, Michael Dinkins, James Ermer, John P. McCann, Robert F. Norfleet, Jr., Julious P. Smith, Jr., and Eugene P. Trani.

No other matters were voted upon at the Meeting or during the quarter for which this report is filed.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit No.	Document
11	Statement re: Computation of Earnings Per Share.

b) Reports on Form 8-K

None

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LANDAMERICA FINANCIAL GROUP, INC.
(Registrant)

Date: August 13, 2001

/s/ Charles Henry Foster, Jr.

Charles Henry Foster, Jr.
Chairman and Chief Executive Officer

Date: August 13, 2001 /s/ G. William Evans

G. William Evans
Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Document
11	Statement Re: Computation of Earnings Per Share.