LANDAMERICA FINANCIAL GROUP INC
Form 10-Q
August 13, 2002

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, 2002   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 18,433,509   August 8, 2002

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, 2002
INVESTMENTS:	
Fixed maturities available-for-sale - at fair value (amortized cost: 2002 - $926,335; 2001 - $865,354)	$ 949,212
Mortgage loans (less allowance for doubtful accounts: 2002 - $203; 2001 - $176)	1,028
Invested cash	138,725
Total Investments	1,088,965
CASH	28,735
NOTES AND ACCOUNTS RECEIVABLE:	
Notes (less allowance for doubtful accounts: 2002 - $5,665; 2001 - $5,278)	9,088
Accounts receivable (less allowance for doubtful accounts:	

2002 - $8,489; 2001 - $8,058)	50,227
Total Notes and Accounts Receivable	59,315
PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2002 - $135,337; 2001 - $123,301)	61,243
TITLE PLANTS	96,759
GOODWILL (less accumulated amortization: 2001 - $37,588)	191,742
DEFERRED INCOME TAXES	137,649
OTHER ASSETS	117,678
Total Assets	$ 1,782,086

See accompanying notes.

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

LIABILITIES	June 30, 2002
POLICY AND CONTRACT CLAIMS	$ 568,101
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	212,083
FEDERAL INCOME TAXES	16,293
NOTES PAYABLE	187,713
OTHER	23,281
Total Liabilities	1,007,471
COMMITMENTS AND CONTINGENCIES (Note 3)	
SHAREHOLDERS' EQUITY	
Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2002 - 18,482,834; 2001 - 18,583,937	518,515

Accumulated other comprehensive loss	5,428
Retained earnings	250,672
Total Shareholders' Equity	774,615
Total Liabilities and Shareholders' Equity	$ 1,782,086

See accompanying notes.

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(In thousands of dollars except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six
	2002	2001	2002
REVENUES			
Title and other operating revenues:			
Direct operations	$ 254,618	$ 269,819	$ 494,03
Agency operations	349,400	271,307	661,23
	604,018	541,126	1,155,27
Investment income	12,984	12,864	25,81
Loss on sale of investments	(193)	(368)	(2
	616,809	553,622	1,181,06
EXPENSES			
Salaries and employee benefits	158,916	165,708	323,30
Agents' commissions	276,680	213,932	523,95
Provision for policy and contract claims	24,346	21,310	46,43
Interest expense	3,074	3,315	6,29
Exit and termination costs	14,132	-	17,32
General, administrative and other	99,982	104,802	197,31
	577,130	509,067	1,114,62
INCOME BEFORE INCOME TAXES	39,679	44,555	66,43
INCOME TAX EXPENSE (BENEFIT)			
Current	16,445	18,350	23,24
Deferred	(2,557)	(2,310)	
	13,888	16,040	23,25
NET INCOME	25,791	28,515	43,18

DIVIDENDS - PREFERRED STOCK	-	-	
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 25,791	$ 28,515	$ 43,18
NET INCOME PER COMMON SHARE	$ 1.39	$ 1.58	$ 2.3
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	18,536	18,056	18,53
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 1.38	$ 1.54	$ 2.3
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION	18,719	18,535	18,68

See accompanying notes.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(In thousands of dollars)
(Unaudited)

	2002
Cash flows from operating activities:	
Net income	$ 43,184
Depreciation and amortization	9,693
Amortization of bond premium	1,365
Realized investment losses	23
Deferred income tax	7
Change in assets and liabilities, net of businesses acquired:	
Notes receivable	(315)
Premiums receivable	8,337
Income taxes receivable/payable	12,640
Policy and contract claims	6,663
Accounts payable and accrued expenses	24,775
Other	(5,510)
Net cash provided by operating activities	100,862
Cash flows from investing activities:	
Purchase of property and equipment, net	(9,100)
Purchase of business, net of cash acquired	-
Change in cash surrender value	2,848
Cost of investments acquired:	
Fixed maturities - available-for-sale	(271,644)
Equity securities	-
Mortgage loans	-
Proceeds from investment sales or maturities:	
Fixed maturities - available-for-sale	208,201
Mortgage loans	508

Net cash used in investing activities	(69,187)
Cash flows from financing activities:	
Proceeds from the sale of common shares	1,473
Cost of common shares repurchased	(4,753)
Repayment of cash surrender value loan	(6,966)
Dividends paid	(1,857)
Proceeds from issuance of notes payable	-
Payments on notes payable	(20,882)
Net cash (used in) provided by financing activities	(32,985)
Net decrease in cash and invested cash	(1,310)
Cash and invested cash at beginning of period	168,770
Cash and invested cash at end of period	$ 167,460

See accompanying notes.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(In thousands of dollars except per share amounts)
(Unaudited)

	Preferred Stock		Common Stock		Acc Comp Inco
	Shares	Amounts	Shares	Amounts	
Balance - December 31, 2000	2,200,000	$175,700	13,518,319	$340,269	
Comprehensive income:					
Net income	-	-	-	-	
Other comprehensive income, net of tax of $90					
Net unrealized gain on securities	-	-	-	-	
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	

BALANCE - December 31, 2001	-	-	18,583,937	$521,795
Comprehensive income:				
Net income	-	-	-	-
Other comprehensive income, net of tax of $4,887				
Net unrealized gains on securities	-	-	-	-
Common stock retired	-	-	(154,600)	(4,753)
Stock option and incentive plans	-	-	53,497	1,473
Common dividends ($0.05/share)	-	-	-	-
BALANCE - June 30, 2002	-	-	18,482,834	$518,515

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 Annual Report on Form 10-K for the year ended December 31, 2001 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.

2. Earnings Per Share

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

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six M J 2002
Numerator:			
Net income - numerator for diluted earnings per share	$ 25,791	$ 28,515	$ 43,184
Less preferred dividends	-	-	-

Numerator for basic earnings per share	$ 25,791	$ 28,515	$ 43,184
Denominator:			
Weighted average shares - denominator for basic earnings per share	18,536	18,056	18,532
Effect of dilutive securities:			
Assumed weighted average conversion of preferred stock	-	275	-
Employee stock options	183	204	156
Denominator for diluted earnings per share	18,719	18,535	18,688
Basic earnings per common share	$1.39	$1.58	$2.33
Diluted earnings per common share	$1.38	$1.54	$2.31

3. Commitments and Contingencies

For additional information, see Pending Legal Proceedings on pages F-29 and F-30 and Legal Proceedings on pages 12 and 13 of the Form 10-K for the fiscal year ended December 31, 2001.

4. New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and included guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Under SFAS No. 142, goodwill and other intangible assets with indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets with indefinite lives consist of Title Plants.

On January 1, 2002, the Company adopted SFAS No. 142 which will increase annual net earnings by approximately $6.9 million. The Company tested goodwill for impairment using the process prescribed in SFAS No. 142. The test performed indicated that no goodwill impairment existed at January 1, 2002.

The following table provides comparative earnings and earnings per share had the non-amortization provisions of SFAS No. 142 been adopted for the periods presented:

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Mo Ju 2002
Reported net income	$ 25,791	$ 28,515	$ 43,184
Goodwill amortization, net of tax	-	1,582	-
Adjusted net income	$ 25,791	$ 30,097	$ 43,184
Basic earnings per share:			
Reported net income	$ 1.39	$ 1.58	$ 2.33
Goodwill amortization	-	.09	-
Adjusted net income	$ 1.39	$ 1.67	$ 2.33
Diluted earnings per share:			
Reported net income	$ 1.38	$ 1.54	$ 2.31
Goodwill amortization	-	.08	-
Adjusted net income	$ 1.38	$ 1.62	$ 2.31

On January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The adoption of the Statement did not have a material impact on the Company's financial position and results of operations.

5. Exit and Termination Costs

On June 1, 2002, the Company entered into a joint venture agreement with The First American Corporation to combine its real estate valuation operations. Under the terms of the agreement, the Company will contribute its former Primis (currently operating as "OneStop") residential appraisal production division, which it acquired in 2000, to First American's eAppraiseIT subsidiary. In connection with the transaction, the Company will exit the residential appraisal production business which has been unprofitable and has recorded a second quarter charge of $14,132 for exit, termination and other costs. This amount is comprised of $4,635 related to lease termination costs, $2,209 related to employee severance costs and $7,288 write down to estimated net realizable value of assets determined not to be redeployable and other miscellaneous exit costs. In the first quarter of 2002, the Company recorded $3,190 of exit and termination costs related to the closing of certain offices and reduction in workforce of its real estate valuation operations. Of the amounts accrued, $1,025 had been paid as of June 30, 2002, leaving $16,297 which the Company expects to be substantially paid by December 31, 2006.

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 2002 were $604.0 million compared to $541.1 million in the second quarter of 2001, an increase of 11.6%. Direct revenues decreased 5.6% and agency revenues increased 28.8% in the second quarter of 2002 compared to the same period in 2001. The direct revenue decrease reflected a fall off in the second quarter of 2002 from the high level of refinancing transactions experienced in the second quarter of 2001. The year over year increase in agency revenue is a result of the typical industry time lag in agents' reporting business they have written.

Year to date operating revenues for the period ended June 30, 2002 increased 19.4% to $1.2 billion from $967.2 million in the comparable period of 2001. The factors discussed under the quarterly discussion above also affected the first six months of 2002 compared to the same period of 2001, with direct revenues increasing 4.3% and agency revenues increasing 34.0%.

Direct orders opened in company offices totaled 240,200 and 477,800 in the second quarter and first half of 2002 compared to 254,400 and 511,300 in the comparable periods of 2001. Direct orders closed in company offices totaled 167,400 and 341,000 in the second quarter and first half of 2002 compared to 189,600 and 345,000 in the comparable periods of 2001.

Investment Income

Investment income reported for the first six months of 2002 and 2001 was $25.8 million. Although the amounts were the same, they reflect a lower yield on a higher investment base in 2002 compared to 2001.

Operating Expenses

Operating expenses excluding a one-time charge of $14.1 million for exit and termination costs were $563.0 million in the second quarter of 2002 compared to $509.1 million in the second quarter of 2001, an increase of $53.9 million or 10.6%. The largest component of this increase was agents' commissions which increased $62.7 million in direct proportion to the increase in agency revenue. This increase was partially offset by decreases in salary and related expense and other operating expense. The reduction in salary and related expense was due to lower staffing levels and lower levels of incentive pay and overtime.

Operating expenses excluding one-time charges of $17.3 million for exit and termination costs were $1.1 billion in the first half of 2002 compared to $937.3 million in the first half 2001. This increase of $160.0 million was composed primarily of an increase of $135.4 million in agents' commissions. Other expenses increasing in the first half of 2002 compared to the same period of 2001 were largely related to the increased business volume and included salary and related expense and premium tax. On

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January 1, 2002, the Company adopted SFAS 142 Goodwill and Other Intangible Assets which provided that goodwill no longer be amortized, resulting in a $4.6 million decrease in expense for the first six months of 2002 compared to the comparable period of 2001.

Effective May 31, 2002, the Company entered into a joint venture with the First American Corporation, contributing its appraisal production division to the venture. The venture is expected to be the nation's largest provider of real estate valuation services. In connection with this transaction, the Company recorded a one time charge of $14.1 million as discussed in footnote 5.

Net Income

The Company recorded net income of $25.8 million or $1.38 per diluted share in the second quarter of 2002, compared to $28.5 million or $1.54 per diluted share in the second quarter of 2001. On a pretax basis, the 2002 quarter was negatively impacted by a $14.1 million charge for exit and termination costs and was benefited by the reduction in goodwill amortization of $2.0 million.

For the first six months of 2002 the Company recorded net income of $43.2 million or $2.31 per diluted share compared $35.2 million or $1.89 per diluted share recorded in the first six months of 2001. On a pretax basis, the 2002 period reflected $17.3 million for exit and termination costs and a reduction of goodwill amortization of $4.6 million.

Liquidity and Capital Resources

Cash provided by operations in the six month periods ended June 30, 2002 and 2001 were $100.9 million and $59.6 million, respectively. As of June 30, 2002, the Company held cash and invested cash of $167.5 million and fixed maturity securities of $949.2 million.

In December 2001 the board of directors approved a program allocating $25.0 million to repurchase up to 1.25 million shares or 7% of the Company's outstanding stock over the following twelve months. Through June 30, 2002, 158,200 shares at a cost of $4.85 million had been repurchased.

In view of the historic ability of the Company to generate strong, positive cash flows and its strong cash position and relatively conservative capitalization structure, management believes that the Company will have sufficient liquidity and adequate capital resources to meet both its short- and long-term capital needs. In addition, the Company has $114.5 million available under a credit facility which was unused at June 30, 2002.

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)

	2002	2003	2004	2005	2006	2007 and after	
Assets:							
Taxable available-for-sale securities:							
Book value	$ 26,170	$ 34,164	$ 22,574	$ 50,046	$ 44,341	$335,459	$
Average yield	5.9%	5.8%	6.9%	6.6%	6.0%	6.5%	
Non-taxable available-for-sale securities:							
Book value	4,344	16,762	21,266	36,980	20,646	260,127	
Average yield	4.4%	5.0%	4.4%	4.3%	4.5%	4.2%	
Preferred stock:							
Book value	43,400	-	-	-	-	10,056	
Average yield	8.3%	-	-	-	-	5.9%	

The Company also has long-term debt of $187.7 million bearing weighted average interest at 6.4% at June 30, 2002. A .25% change in the interest rate would affect income before income taxes by approximately $0.5 million annually.

Forward-Looking and Cautionary Statements

Certain information contained in this Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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 cautionary statements set forth in the following paragraph.

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 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 21, 2002.

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

Nominee	Term	Votes For	Votes Withheld	B No
Robert F. Norfleet, Jr.	3	17,122,350	260,456	
Julious P. Smith, Jr.	3	16,983,367	399,439	
Thomas G. Snead, Jr.	3	17,145,554	237,252	
Eugene P. Trani	3	17,117,373	265,432	

The terms of office of the following directors continued after the meeting: Janet A. Alpert, Theodore L. Chandler, Jr., Michael Dinkins, Charles H. Foster, Jr., John P. McCann, Robert T. Skunda, and Marshall B. Wishnack.

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
99.1	Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350

99.2	Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

b) Reports on Form 8-K

Form 8-K, dated May 31, 2002 and filed June 11, 2002, reporting under Item 5 that the Company had formed a joint venture with The First American Corporation to combine its real estate valuation operations.

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Signatures

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

LANDAMERICA FINANCIAL GROUP, INC.
(Registrant)

Date: August 13, 2002

/s/ Charles Henry Foster, Jr.

Charles Henry Foster, Jr.
Chairman and Chief Executive Officer

Date: August 13, 2002

/s/ G. William Evans

G. William Evans
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Document
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99.1	Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
99.2	Statement of Chief Financial Officer Pursuant to 18 U.S.C.

Section 1350