

Edgar Filing: LANDAMERICA FINANCIAL GROUP INC - Form 10-Q

LANDAMERICA FINANCIAL GROUP INC  
Form 10-Q  
May 11, 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 March 31, 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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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  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 17,995,954 May 10, 2001  
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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

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

ASSETS	March 31,	Dece
-----	2001	-----
<b>INVESTMENTS:</b>		
Fixed maturities available-for-sale - at fair value (amortized cost: 2001 - \$807,664; 2000 - \$800,504)	\$ 816,467	\$
Equity securities - at fair value (cost: 2001 - \$4,293; 2000 - \$4,285)	3,243	
Mortgage loans (less allowance for doubtful accounts: 2001 - \$249; 2000 - \$139)	15,897	
Invested cash	71,459	
	-----	-----

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Total Investments	907,066	
CASH	28,580	
NOTES AND ACCOUNTS RECEIVABLE:		
Notes (less allowance for doubtful accounts: 2001 - \$2,720; 2000 - \$2,230)	11,850	
Premiums (less allowance for doubtful accounts: 2001 - \$9,085; 2000 - \$9,945)	40,511	
Income tax recoverable	-	
	-----	-----
Total Notes and Accounts Receivable	52,361	
PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2001 - \$105,114; 2000 - \$92,715)	58,875	
TITLE PLANTS	91,868	
GOODWILL (less accumulated amortization: 2001 - \$34,823; 2000 - \$32,072)	215,107	
DEFERRED INCOME TAXES	136,105	
OTHER ASSETS	126,972	
	-----	-----
Total Assets	\$ 1,616,934	\$ 1,616,934
	=====	=====

See accompanying notes.

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

LIABILITIES	March 31,	December 31,
-----	2001	2000
	----	----
POLICY AND CONTRACT CLAIMS	\$ 556,697	\$ 556,697
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	152,488	152,488
NOTES PAYABLE	209,369	209,369
FEDERAL INCOME TAXES	455	455
OTHER	17,827	17,827
	-----	-----
Total Liabilities	936,836	936,836
	-----	-----

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### COMMITMENTS AND CONTINGENCIES

#### SHAREHOLDERS' EQUITY

Preferred stock, no par value, authorized 5,000,000 shares, no shares of Series A Junior Participating Preferred Stock issued or outstanding; 165,983 shares of 7% Series B Cumulative Convertible Preferred Stock issued and outstanding	13,256	
Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2001 - 17,997,453; 2000 - 13,518,319	503,324	
Accumulated other comprehensive gain (loss)	5,039	
Retained earnings	158,479	
Total Shareholders' Equity	680,098	
Total Liabilities and Shareholders' Equity	\$ 1,616,934	\$ 1,616,934 =====

See accompanying notes.

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
THREE MONTHS ENDED MARCH 31, 2001 AND 2000  
(In thousands of dollars except per share amounts)  
(Unaudited)

	2001	
	----	
<b>REVENUES</b>		
Title and other operating revenues:		
Direct operations	\$ 203,787	\$
Agency operations	222,309	
	426,096	
Investment income	12,918	
(Loss) gain on sales of investments	(409)	
	438,605	
<b>EXPENSES</b>		
Salaries and employee benefits	140,877	
Agents' commissions	174,618	

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Provision for policy and contract claims	16,706	
Interest expense	3,667	
General, administrative and other	92,361	
	-----	-----
	428,229	
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	10,376	
INCOME TAX EXPENSE (BENEFIT)		
Current	187	
Deferred	3,548	
	-----	-----
	3,735	
	-----	-----
NET INCOME (LOSS)	6,641	
DIVIDENDS - PREFERRED STOCK	(145)	
	-----	-----
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 6,496	\$
	=====	=====
NET INCOME (LOSS) PER COMMON SHARE	\$ 0.43	\$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	15,148	
NET INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION	\$ 0.36	\$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION	18,608	

See accompanying notes.

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED MARCH 31, 2001 AND 2000  
(In thousands of dollars)  
(Unaudited)

	2001	
	----	
Cash flows from operating activities:		
Net income (loss)	\$ 6,641	\$
Depreciation and amortization	8,573	
Amortization of bond premium	1,143	
Realized investment losses (gains)	409	
Deferred income tax	187	
Change in assets and liabilities, net of businesses acquired:		
Notes receivable	(839)	

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Premiums receivable	(3,654)	
Income taxes receivable/payable	4,934	
Policy and contract claims	(101)	
Accounts payable and accrued expenses	(26,193)	
Other	(2,156)	
	-----	
Net cash used in operating activities	(11,056)	
	-----	
Cash flows from investing activities:		
Purchase of property and equipment, net	(3,357)	
Purchase of business, net of cash acquired	(433)	
Cost of investments acquired:		
Fixed maturities - available-for-sale	(110,018)	
Equity securities	(8)	
Mortgage loans	(6,245)	
Proceeds from investment sales or maturities:		
Fixed maturities - available-for-sale	101,531	
Mortgage loans	-	
	-----	
Net cash used in investing activities	(18,530)	
	-----	
Cash flows from financing activities:		
Proceeds from sale of common shares	611	
Cost of common shares repurchased	-	
Repayment of cash surrender value loan	(322)	
Dividends paid	(1,005)	
Proceeds from issuance of notes payable	10,000	
Payments on notes payable	(3,010)	
	-----	
Net cash provided by (used in) financing activities	6,274	
	-----	
Net decrease in cash and invested cash	(23,312)	
Cash and invested cash at beginning of period	123,351	
	-----	
Cash and invested cash at end of period	\$ 100,039	\$
	=====	=====

See accompanying notes.

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
THREE MONTHS ENDED MARCH 31, 2001 AND 2000  
(In thousands of dollars except per share amounts)  
(Unaudited)

	Preferred Stock		Common Stock		Accu
	Shares	Amounts	Shares	Amounts	O
	-----	-----	-----	-----	Comp
					Inco
					-----
Balance - December 31, 1999	2,200,000	\$ 175,700	13,680,421	\$ 342,138	\$
Net loss	-	-	-	-	-
Net unrealized gain on securities	-	-	-	-	-

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Comprehensive income					
Common stock retired	-	-	(287,300)	(4,533)	
Common stock issued	-	-	10,020	-	
Preferred dividends (7%)	-	-	-	-	
Common dividends (\$0.05/share)	-	-	-	-	
	-----	-----	-----	-----	-----
Balance - March 31, 2000	2,200,000	\$ 175,700	13,403,141	\$ 337,605	\$
	=====	=====	=====	=====	=====
Balance - December 31, 2000	2,200,000	\$ 175,700	13,518,319	\$ 340,269	\$
Net income	-	-	-	-	
Net unrealized gain on securities	-	-	-	-	
Comprehensive income, net of tax of \$2,714					
Common stock issued	-	-	18,573	611	
Preferred stock conversion	(2,034,017)	(162,444)	4,460,561	162,444	
Preferred dividends (7%)	-	-	-	-	
Common dividends (\$0.05/share)	-	-	-	-	
	-----	-----	-----	-----	-----
Balance - March 31, 2001	165,983	\$ 13,256	17,997,453	\$ 503,324	\$
	=====	=====	=====	=====	=====

See accompanying notes

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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, 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.

2. Earnings Per Share

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

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Three Months End  
2001  
-----

Numerator:	
Net income (loss) - numerator for diluted earnings per share	\$ 6,641
Less preferred dividends	(145)
	-----
Numerator for basic earnings per share	\$ 6,496
	=====
Denominator:	
Weighted average shares - denominator for basic earnings per share	15,148
Effect of dilutive securities:	
Assumed weighted average conversion of preferred stock	3,176
Employee stock options	284
	-----
Denominator for diluted earnings per share	18,608
	=====
Basic earnings (loss) per common share	\$ 0.43
	=====
Diluted earnings (loss) per common share	\$ 0.36
	=====

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In accordance with accounting principles generally accepted in the United States, the effect of dilutive securities was excluded from the calculation of the diluted loss per common share in the first quarter of 2000 as such inclusion would result in antidilution.

3. Commitments and Contingencies

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



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

Results of Operations

Operating Revenues

The Company reported operating revenue for the quarter ended March 31, 2001 of \$426.1 million, which was an increase of 8.2% over the \$393.8 million reported in the comparable quarter of 2000. The overall increase is the result of increased volumes of residential resale and refinancing transactions, reflecting a favorable interest rate environment which began in December 2000. Direct revenues grew 23.6% from \$164.9 million in the first quarter of 2000 to \$203.8 million in the first quarter of 2001. Due to the time lag in reporting, agency revenue was down slightly in the first quarter of 2001 compared to 2000.

The open order count registered for the first quarter of 2001 was almost 66.2% ahead of the count registered for the fourth quarter of 2000 and 48.6% ahead of the first quarter of 2000. In addition, the March order count was the strongest since October 1998, when the Company experienced its all time high, monthly open order count.

Investment Income

Investment income was \$12.9 million in the first quarter of 2001 compared to \$12.8 million in the first quarter of 2000. The increase was attributable to the effects of a larger investment base offset by slightly reduced yields.

Expenses

Operating expenses for the first quarter of 2001 totaled \$428.2 million compared to \$409.7 million in the first quarter of 2000. Agents' commissions decreased \$3.7 million between the 2000 and 2001 quarters in direct relation to the decrease in agency revenue. Salary and related expenses were \$140.9 million in the first quarter of 2001 compared to \$121.0 million for the 2000 period which constitutes an increase of \$19.8 million or 16%. This increase was due to an increase in variable compensation associated with the increase in direct revenue and the inclusion of recent acquisitions in the current quarter. Average same store staffing levels decreased to 7,900 in the 2001 quarter from 8,200 in the first quarter of 2000.

The provision for policy and contract claims decreased \$0.7 million from the first quarter of 2000 to the first quarter of 2001 as a result of recognition of continued improvement in the Company's loss experience.

## Net Income

The Company reported a net income of \$6.6 million, or \$0.36 per share on a diluted basis, for the quarter ended March 31, 2001, compared to a net loss of \$2.1 million, or \$0.30 per share on a diluted basis, for the quarter ended March 31, 2000. The 2001 first quarter results included a \$0.3 million, or \$0.01 per diluted share net of tax loss from the sale of investments.

In accordance with generally accepted accounting principles, the effect of dilutive securities was excluded from the calculation of the diluted loss per common share in the first quarter of 2000 as such inclusion would result in antidilution.

## Liquidity and Capital Resources

Cash used in operating activities for the three months ended March 31, 2001 was \$11.1 million. As of March 31, 2001, the Company held cash and invested cash of \$97.3 million and fixed maturity securities of \$816.5 million.

In addition, the Company has \$32 million available under a credit facility which was unused at March 31, 2001.

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	\$ 9,129	\$ 32,146	\$ 41,112	\$ 31,941	\$ 48,435
Average yield	6.8%	6.3%	6.1%	7.1%	7.0%
Non-taxable available-for-sale securities:					
Book value	1,269	7,928	16,041	20,771	29,566
Average yield	4.4%	4.4%	5.0%	4.8%	4.6%
Preferred stock:					
Book value	-	-	-	-	-
Average yield	-	-	-	-	-

The Company also has long-term debt of \$205.5 million bearing interest at 6.79% at March 31, 2001. A 0.25% 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 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.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On February 22, 2001, the Norwest suit reported in the Registrant's Form 8-K filed on January 24, 2001, was dismissed with prejudice with respect to Commonwealth Land Title Insurance Company, a wholly owned subsidiary of Registrant, and its current and former employees named as defendants.

### 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

-----

Form 8-K, filed January 26, 2001, reporting under Item 5 that Commonwealth Land Title Insurance Company, a wholly-owned subsidiary of the Company ("Commonwealth"), negotiated the settlement of a lawsuit filed on November 3, 1998 by Norwest Mortgage, Inc. and Norwest Funding, Inc. in the Superior Court for the County of Los Angeles, California, on behalf of itself and its current or former employees named as defendants.

Form 8-K, filed January 30, 2001, reporting under Item 5 (i) that the Company issued a press release on January 30, 2001 relating to its operating results for the fourth quarter and fiscal year ended December 31, 2000; (ii) that the Company issued a press release on October 31, 2000 announcing the acquisition of Primis, Inc.; and (iii) that the Company received notification in January 2001 that Reliance Insurance Company ("Reliance") intended to engage in an underwritten offering of 4,039,473 shares of common stock that were issued to it in February 1998 in connection with the Company's acquisition of all of the outstanding capital stock of Commonwealth and Transnation Title Insurance Company from Reliance (the "Acquisition"), plus an additional 3,668,383 shares of common stock that it would receive upon conversion of shares of preferred stock issued to it in connection with the Acquisition.

Form 8-K, filed February 16, 2001, reporting under Item 7 the filing of an Underwriting Agreement dated February 15, 2001, between the Company, Reliance and Credit Suisse First Boston Corporation, Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc.

Form 8-K, filed February 26, 2001, reporting under Item 5 that Reliance sold 7,707,856 shares of the Company's common stock pursuant to an underwritten offering.

Signatures

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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: May 11, 2001  
-----

/s/ Charles Henry Foster, Jr.  
-----

Charles Henry Foster, Jr.  
Chairman and Chief Executive Officer

Date: May 11, 2001  
-----

/s/ G. William Evans  
-----

G. William Evans  
Executive Vice President and Chief  
Financial Officer

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EXHIBIT INDEX

No. ---	Description -----
11	Statement Re: Computation of Earnings Per Share