

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

LANDAMERICA FINANCIAL GROUP INC
Form 10-Q
May 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 March 31, 2002

Commission File No. 1-13990

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

Virginia
(State or other jurisdiction of
incorporation or organization)

54-1589611
(I.R.S. Employer Identification No.)

101 Gateway Centre Parkway
Richmond, Virginia
(Address of principal executive offices)

23235-5153
(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	18,563,385	May 7, 2002
	-----	-----

1

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements:	
	Consolidated Balance Sheets.....	3
	Consolidated Statements of Operations	5
	Consolidated Statements of Cash Flows.....	6
	Consolidated Statements of Changes in Shareholders' Equity.....	7
	Notes to Consolidated Financial Statements.....	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Item 3.	Quantitative and Qualitative Disclosures about Market Risk.....	14

PART II. OTHER INFORMATION

Item 6.	Exhibits and Reports on Form 8-K.....	15
	Signatures.....	16

2

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

ASSETS	March 31, 2002
-----	-----
INVESTMENTS:	
Fixed maturities available-for-sale - at fair value (amortized cost: 2002 - \$916,743; 2001 - \$865,354)	\$ 918,580
Mortgage loans (less allowance for doubtful accounts: 200 and 2001 - \$176)	1,142
Invested cash	85,692

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

Total Investments	1,005,414
CASH	25,054
NOTES AND ACCOUNTS RECEIVABLE:	
Notes (less allowance for doubtful accounts: 2002 - \$5,279; 2001 - \$5,278)	9,122
Accounts receivable (less allowance for doubtful accounts: 2002 - \$8,153; 2001 - \$8,058)	48,950

Total Notes and Accounts Receivable	58,072
PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2002 - \$130,969; 2001 - \$123,301)	62,510
TITLE PLANTS	96,632
GOODWILL (less accumulated amortization: 2001 - \$37,588)	190,728
DEFERRED INCOME TAXES	142,470
OTHER ASSETS	99,113

Total Assets	\$ 1,679,993 =====

See accompanying notes.

3

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

	March 31,
LIABILITIES	2002
-----	----
POLICY AND CONTRACT CLAIMS	\$ 564,016
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	156,886
FEDERAL INCOME TAXES	9,605
NOTES PAYABLE	187,311
OTHER	23,691

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

Total Liabilities	941,509

COMMITMENTS AND CONTINGENCIES (Note 3)	
SHAREHOLDERS' EQUITY	
Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2002 - 18,552,849; 2001 - 18,583,937	520,922
Accumulated other comprehensive loss	(8,248)
Retained earnings	225,810

Total Shareholders' Equity	738,484

Total Liabilities and Shareholders' Equity	\$ 1,679,993
	=====

See accompanying notes.

4

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2002 AND 2001
(In thousands of dollars except per share amounts)
(Unaudited)

	2002

REVENUES	
Title and other operating revenues:	
Direct operations	\$ 239,420
Agency operations	311,838

	551,258
Investment income	12,829
Gain (loss) on sales of investments	170

	564,257

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

EXPENSES	
Salaries and employee benefits	164,741
Agents' commissions	247,275
Provision for policy and contract claims	22,093
Interest expense	3,217
General, administrative and other	100,173

	537,499

INCOME BEFORE INCOME TAXES	26,758
INCOME TAX EXPENSE	
Current	6,815
Deferred	2,550

	9,365

NET INCOME	17,393
DIVIDENDS - PREFERRED STOCK	-

NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 17,393
	=====
NET INCOME PER COMMON SHARE	\$0.94
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	18,529
NET INCOME PER COMMON SHARE ASSUMING DILUTION	\$0.93
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION	18,657

See accompanying notes.

5

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2002 AND 2001
(In thousands of dollars)
(Unaudited)

	2002

Cash flows from operating activities:	
Net income	\$ 17,393

5

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

Depreciation and amortization	5,135
Amortization of bond premium	2,006
Realized investment (gains) losses	(170)
Deferred income tax	2,550
Change in assets and liabilities, net of businesses acquired:	
Notes receivable	(349)
Premiums receivable	9,614
Income taxes receivable/payable	5,952
Policy and contract claims	2,578
Accounts payable and accrued expenses	(30,422)
Other	9,046

Net cash provided by (used in) operating activities	23,333

Cash flows from investing activities:	
Purchase of property and equipment, net	(5,682)
Purchase of business, net of cash acquired	-
Cost of investments acquired:	
Fixed maturities - available-for-sale	(155,919)
Equity securities	-
Mortgage loans	-
Proceeds from investment sales or maturities:	
Fixed maturities - available-for-sale	102,710
Mortgage loans	394

Net cash used in investing activities	(58,497)

Cash flows from financing activities:	
Proceeds from sale of common shares	464
Cost of common shares repurchased	(1,337)
Repayment of cash surrender value loan	225
Dividends paid	(928)
Proceeds from issuance of notes payable	-
Payments on notes payable	(21,284)

Net cash (used in) provided by financing activities	(22,860)

Net decrease in cash and invested cash	(58,024)
Cash and invested cash at beginning of period	168,770

Cash and invested cash at end of period	\$ 110,746
	=====

See accompanying notes.

6

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2002 AND 2001
(In thousands of dollars except per share amounts)
(Unaudited)

	Preferred Stock		Common Stock		Accu
	Shares	Amounts	Shares	Amounts	Ot
					Compr
					Incom

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

	-----	-----	-----	-----	-----
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 \$2,714					
Net unrealized gain on securities		-	-	-	-
Stock option and incentive plans	-	-	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	\$
	=====	=====	=====	=====	=====
BALANCE - December 31, 2001	-	-	18,583,937	\$521,795	\$
Comprehensive income:					
Net income	-	-	-	-	-
Other comprehensive income, net of tax of \$(2,477)					
Net unrealized gains on securities	-	-	-	-	-
Common stock retired	-	-	(48,800)	(1,337)	
Stock option and incentive plans	-	-	17,712	464	
Common dividends (\$0.05/share)	-	-	-	-	
	-----	-----	-----	-----	-----
BALANCE - March 31, 2002	-	-	18,552,849	\$520,922	\$
	=====	=====	=====	=====	=====

See accompanying notes

7

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 with the exception of a change in the method of accounting for goodwill described in Note 4. This report should be read in conjunction with the aforementioned Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring

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

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 End 2002 ----
Numerator:	
Net income - numerator for diluted earnings per share	\$ 17,393
Less preferred dividends	-

Numerator for basic earnings per share	\$ 17,393
	=====
Denominator:	
Weighted average shares - denominator for basic earnings per share	18,529
Effect of dilutive securities:	
Assumed weighted average conversion of preferred stock	-
Employee stock options	128

Denominator for diluted earnings per share	18,657
	=====
Basic earnings per common share	\$ 0.94
	=====
Diluted earnings per common share	\$ 0.93
	=====

8

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 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

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

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. Intangible assets with indefinite lives consist of Title Plants.

On January 1, 2002, the Company adopted SFAS No. 142 which resulted in a \$1.9 million increase in the Company's first quarter net of tax earnings and is expected to increase annual net earnings by \$6.9 million. The Company will test goodwill for impairment using the two-step process prescribed in SFAS No. 142. The first step is a screen for potential impairment, while the second step measures the amount of impairment, if any. The Company expects to perform the first of the required impairment tests of goodwill as of January 1, 2002 in the first six months of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company does not expect application of the impairment provisions of SFAS No. 142 to have an impact on the financial statements upon adoption.

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:

9

	Three Months End 2002 ----
Reported net income	\$ 17,393
Goodwill amortization, net of tax	-

Adjusted net income	\$ 17,393
	=====
Basic earnings per share:	
Reported net income	\$ 0.94
Goodwill amortization	-

Adjusted net income	\$ 0.94
	=====
Diluted earnings per share:	
Reported net income	\$ 0.93
Goodwill amortization	-

Adjusted net income	\$ 0.93
	=====

On January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets, which addresses

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

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.

10

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

Results of Operations

Operating Revenues

In the first quarter of 2002 the Company reported operating revenues of \$551.3 million which was a 29.4% increase from the \$426.1 million reported in the first quarter of 2001. The improvement in 2002 compared to 2001 resulted from continued strength in residential refinancings and a resilient housing market. Direct revenues increased 17.5% and agency revenues increased 40.3% in the first quarter of 2002 compared to the first quarter of 2001. Agency revenue reported reflected in part the typical industry time lag in reporting such revenues.

Investment Income

Investment income reported was \$12.9 million in the first quarter of both 2002 and 2001. The amount reported in 2002 was earned on a higher level of invested assets which was offset by lower yields and a shift to tax exempt investments.

Expenses

Operating expenses for the first quarter of 2002 were \$537.5 million compared to \$428.2 in the first quarter of 2001. Overall expenses increased at a slightly lesser rate than revenues did in the first quarter of 2002 compared to the same period of 2001.

Commissions increased \$72.7 million or 41.6% resulting from the increase in agency revenue levels and a slight increase in effective commission rates.

Salary and related expenses increased 16.9% from \$140.9 million in the first quarter of 2001 to \$164.7 in the first quarter of 2002. The largest contributor to this increase was increased levels of incentive compensation related to the production of the increased revenue in the first quarter of 2002 compared to the same period of 2001. Salary also increased due to an increase in the average staffing levels required to handle the increased revenue volumes. However, by the end of March 2002, actual staffing levels had been reduced approximately 6% from those at December 2001.

Other operating expenses increased from \$92.4 million in the first quarter of 2001 to \$100.2 in the 2002 comparable period. Increases in these expenses included revenue volume related items and a \$3.2 million pretax charge related primarily to office closings and restructuring in the Company's OneStop operation. These increases were offset by a \$2.6 million decrease in goodwill amortization related to the adoption of SFAS No 142.

11

The provision for policy and contract claims increased from \$16.7 million in the first quarter of 2001 to \$22.1 million in the first quarter of 2002 in

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

proportion to the increase in revenues.

Net Income

The Company reported a net income of \$17.4 million, or \$0.93 per diluted share for the first quarter of 2002 compared to \$6.6 million or \$0.36 per diluted share for the comparable quarter of 2001.

In the first quarter of 2002 the Company adopted SFAS No. 142 which eliminated the requirement to amortize goodwill. As a result, net income was \$1.9 million greater than it would have been without adoption. The effect of adoption is expected to be a \$6.9 million increase in net income for the calendar year.

Finally, the first quarter of 2002 included after tax charges of \$2.1 million or \$0.11 per diluted share related primarily to office closures and restructuring of its OneStop operations.

Liquidity and Capital Resources

Cash provided by operations for the three months ended March 31, 2001 was \$23.3 million. As of March 31, 2002, the Company held cash and invested cash of \$110.7 million and fixed maturity securities of \$918.6 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 March 31, 2002, 48,800 shares at a cost of \$1.4 million had been repurchased.

In view of the historical ability of the Company to generate strong, positive cash flows, and the strong cash position and relatively conservative capitalization structure of the Company, 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 March 31, 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.

12

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						

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

securities:						
Book value	\$22,756	\$36,180	\$25,451	\$48,871	\$43,638	\$337,862
Average yield	6.1%	5.8%	7.0%	6.8%	6.1%	6.4%
Non-taxable available-for-sale securities:						
Book value	5,363	16,795	18,350	34,469	28,532	244,919
Average yield	4.3%	5.0%	4.7%	4.3%	4.5%	4.9%
Preferred stock:						
Book value	-	-	-	-	-	53,557
Average yield	-	-	-	-	-	7.8%

The Company also has long-term debt of \$187.3 million bearing weighted-average interest at 6.4% at March 31, 2002. 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 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

13

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

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

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.

14

PART II. OTHER INFORMATION

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.

15

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)

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

Date: May 13, 2002 /s/ Charles Henry Foster, Jr.

Charles Henry Foster, Jr.
Chairman and Chief Executive Officer

Date: May 13, 2002 /s/ G. William Evans

G. William Evans
Executive Vice President and Chief
Financial Officer

16

EXHIBIT INDEX

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