LANDAMERICA FINANCIAL GROUP INC
Form 10-Q
October 31, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2006

or

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

For the transition period from _____________ to _______________

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.)
5600 Cox Road	
Glen Allen, Virginia	**23060**
(Address of principal executive offices)	(Zip Code)

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

101 Gateway Centre Parkway, Richmond, Virginia 23235-5135
(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 13 or 15(d) of the Securities 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** o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filerx **Accelerated filer** o **Non-accelerated filer** o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o **No** x

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	17,734,133 shares	October 27, 2006

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions)

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
INVESTMENTS:		
Fixed maturities available-for-sale - at fair value (amortized cost: 2006 - $1,253.9; 2005 - $1,154.2)	$ 1,262.8	$ 1,163.5
Equity securities - at fair value (cost: 2006 - $108.6; 2005 - $94.5)	120.3	102.4
Federal funds sold	438.4	4.2
Short-term investments	421.1	484.6
Total Investments	2,242.6	1,754.7
CASH	87.1	89.1
LOANS RECEIVABLE	494.8	437.9
ACCRUED INTEREST RECEIVABLE	20.2	19.6
NOTES AND ACCOUNTS RECEIVABLE		
Notes (less allowance for doubtful accounts: 2006 - $3.8; 2005 - $4.3)	17.4	16.0
Trade accounts receivable (less allowance for doubtful accounts: 2006 - $11.1; 2005 - $7.9)	123.8	124.6
Total Notes and Accounts Receivable	141.2	140.6
INCOME TAXES RECEIVABLE	3.1	-
PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2006 - $220.4; 2005 - $209.5)	148.5	114.4
TITLE PLANTS	104.7	93.9
GOODWILL	745.1	584.3
INTANGIBLE ASSETS (less accumulated amortization 2006 - $80.8; 2005 - $61.3)	183.0	156.3
DEFERRED INCOME TAXES	130.7	130.2
OTHER ASSETS	210.7	174.0
Total Assets	$ 4,511.7	$ 3,695.0

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)

	September 30, 2006 (Unaudited)	December 31, 2005
LIABILITIES		
POLICY AND CONTRACT CLAIMS	$ 765.8	$ 697.6
DEPOSITS	997.2	547.2
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	405.1	399.1
NOTES PAYABLE	686.7	479.3
DEFERRED SERVICE ARRANGEMENTS	223.1	211.2
INCOME TAXES PAYABLE	-	18.1
OTHER	68.5	64.0
Total Liabilities	3,146.4	2,416.5
COMMITMENTS AND CONTINGENCIES (See Note 8)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2006 - 17,794,133; 2005 - 17,291,213	473.6	443.1
Accumulated other comprehensive loss	(40.5)	(42.3)
Retained earnings	932.2	877.7
Total Shareholders' Equity	1,365.3	1,278.5
Total Liabilities and Shareholders' Equity	$ 4,511.7	$ 3,695.0

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005 (as restated)	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005 (as restated)
REVENUE				
Operating revenue	$ 954.2	$ 1,016.3	$ 2,827.6	$ 2,782.2
Investment and other income	31.7	27.3	93.9	73.0
Net realized investment gains	6.1	1.9	5.5	3.0
	992.0	1,045.5	2,927.0	2,858.2
EXPENSES				
Agents' commissions	404.6	402.7	1,191.9	1,098.9
Salaries and employee benefits	280.9	293.1	846.4	823.3
General, administrative and other	176.0	165.5	517.5	503.9
Provision for policy and contract claims	74.9	54.2	176.2	145.7
Premium taxes	12.4	12.2	34.7	32.5
Interest expense	11.3	8.8	30.2	24.8
Amortization of intangibles	6.8	7.6	19.4	22.3
Write-off of intangible and long-lived assets	0.5	37.6	10.2	37.6
	967.4	981.7	2,826.5	2,689.0
INCOME BEFORE INCOME TAXES	24.6	63.8	100.5	169.2
INCOME TAX EXPENSE	9.4	21.4	36.0	63.4
NET INCOME	$ 15.2	$ 42.4	$ 64.5	$ 105.8
NET INCOME PER COMMON SHARE	$ 0.92	$ 2.41	$ 3.82	$ 5.98
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	16.6	17.6	16.9	17.7
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 0.89	$ 2.35	$ 3.69	$ 5.91
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION	17.1	18.0	17.5	17.9
	$ 0.22	$ 0.18	$ 0.58	$ 0.48

CASH DIVIDENDS DECLARED PER COMMON SHARE	

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In millions)
(Unaudited)

	2006	2005 (as restated)
Cash flows from operating activities:		
Net income	$ 64.5	$ 105.8
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	43.0	44.2
Write-off of intangible and other long-lived assets	10.2	37.6
Amortization of bond premium	4.8	5.0
Net realized investment gains	(5.5)	(3.0)
Deferred income tax benefit	(4.6)	(14.3)
Change in assets and liabilities, net of businesses acquired:		
Accounts and notes receivable	7.7	(16.0)
Income taxes receivable/payable	(20.4)	49.2
Accounts payable and accrued expenses	(29.4)	19.5
Policy and contract claims	46.2	37.7
Deferred service arrangements	7.2	4.1
Other	(0.8)	(2.3)
Net cash provided by operating activities	122.9	267.5
Cash flows from investing activities:		
Purchase of title plant, property and equipment, net	(49.1)	(24.9)
Purchase of business, net of cash acquired	(211.7)	(26.7)
Investments in unconsolidated subsidiaries	-	(11.1)
Change in cash surrender value of life insurance	(1.8)	(1.6)
Change in short-term investments	89.6	(175.9)
Cost of investments acquired:		
Fixed maturities	(308.2)	(287.6)
Equity securities	(51.7)	(69.5)
Proceeds from investment sales or maturities:		
Fixed maturities	245.5	272.3
Equity securities	47.8	12.1
Net change in federal funds sold	(434.3)	(1.9)
Change in loans receivable	(57.6)	(55.1)
Net cash used in investing activities	(731.5)	(369.9)
Cash flows from financing activities:		
Net change in deposits	450.0	149.4
Proceeds from the exercise of options and incentive plans	1.4	6.4
Tax benefit of stock options exercised	0.9	-
Cost of common shares repurchased	(28.1)	(38.3)
Dividends paid	(10.0)	(8.6)
Proceeds from issuance of notes payable	303.5	23.5
Payments on notes payable	(111.1)	(21.1)
Net cash provided by financing activities	606.6	111.3
Net (decrease) increase in cash	(2.0)	8.9

Cash at beginning of period		89.1		73.0
Cash at end of period	$	87.1	$	81.9
Non-cash financing:				
Common shares issued for Capital Title merger	$	49.7	$	-

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In millions, except per share amounts)
(Unaudited)

	Common Stock Shares	Common Stock Amounts	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
BALANCE - December 31, 2004 (as restated)	18.0	$ 491.5	$ (17.6)	$ 723.8	$ 1,197.7
Comprehensive income:					
Net income	-	-	-	105.8	105.8
Other comprehensive loss					
Net unrealized loss on securities - net of tax benefit of $8.2	-	-	(15.5)	-	(15.5)
					90.3
Purchase of call options, net of tax	-	(0.7)	-	-	(0.7)
Common stock retired	(0.7)	(38.3)	-	-	(38.3)
Stock options and incentive plans	0.3	9.5	-	-	9.5
Common dividends ($0.48/share)	-	-	-	(8.6)	(8.6)
BALANCE - September 30, 2005 (as restated)	17.6	$ 462.0	$ (33.1)	$ 821.0	$ 1,249.9
BALANCE - December 31, 2005	17.3	$ 443.1	$ (42.3)	$ 877.7	$ 1,278.5
Comprehensive income:					
Net income	-	-	-	64.5	64.5
Other comprehensive income					
Net unrealized gain on securities - net of tax expense of $1.1	-	-	1.8	-	1.8
					66.3
Common stock retired	(0.4)	(28.1)	-	-	(28.1)
Common stock issued	0.7	49.7	-	-	49.7
Stock options and incentive plans	0.2	8.9	-	-	8.9
Common dividends ($0.58/share)	-	-	-	(10.0)	(10.0)
BALANCE - September 30, 2006	17.8	$ 473.6	$ (40.5)	$ 932.2	$ 1,365.3

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INTERIM FINANCIAL INFORMATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K of LandAmerica Financial Group, Inc. for the year ended December 31, 2005. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation of this information have been reflected. Operating results for the interim periods are not necessarily indicative of results for a full year.

When used in these notes, the terms “LandAmerica,” “we,” “us” or “our” means LandAmerica Financial Group, Inc. and all entities included in our Consolidated Financial Statements.

Reclassification

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

Restatement

On February 13, 2006, we announced that we would restate previously filed financial results to correct the accounting for policy and contract claims reserves. The error resulted in a net understatement of reported earnings. We have restated the consolidated financial statements contained herein for the three and nine months ended September 30, 2005. The restatement had no effect on our net cash provided by or used in operating, investing or financing activities. For further information refer to Note 1 to the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2005.

The following tables set forth the effects of the restatement within our previously reported Consolidated Balance Sheet and Consolidated Statements of Operations:

	At September 30, 2005	
	As Previously Reported	As Restated
	(In millions)	
Effects on Consolidated Balance Sheet:		
Deferred income taxes	$ 143.7	$ 115.2
Total assets	3,571.8	3,543.3
Policy and contract claims	762.9	681.5
Total liabilities	2,374.8	2,293.4
Shareholders' equity	1,197.0	1,249.9

	For the Three Months Ended September 30, 2005		For the Nine Months Ended September 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(In millions, except per share amounts)			
Effects on Consolidated Statements of Operations:				
Provision for policy and contract claims	$ 55.4	$ 54.2	$ 155.5	$ 145.7
Income before income taxes	62.6	63.8	159.4	169.2
Income taxes	21.0	21.4	59.9	63.4
Net income	41.6	42.4	99.5	105.8
Net income per common share	$ 2.37	$ 2.41	$ 5.63	$ 5.98
Net income per common share assuming dilution	$ 2.31	$ 2.35	$ 5.56	$ 5.91

Stock-Based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123") as revised by Financial Accounting Standards No. 123(R), *Share-Based Payment* ("SFAS No. 123-(R)"). We have used the modified prospective adoption method. Under this method, the share-based compensation cost recognized beginning January 1, 2006 includes compensation cost for (i) all share-based payments granted prior to, but not vested as of January 1, 2006, based on the grant date fair value originally estimated in accordance with the provisions of SFAS No. 123 and (ii) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123-(R). Compensation cost under SFAS No. 123-(R) is recognized ratably using the straight-line attribution method over the expected vesting period or to the retirement eligibility date, if less than the vesting period when vesting is not contingent upon any future performance. In addition, pursuant to SFAS No. 123-(R), we are required to estimate the amount of expected forfeitures when calculating the compensation costs, instead of accounting for forfeitures as incurred, which was our previous method. As of September 30, 2006, the cumulative effect of adopting SFAS No. 123-(R) was not significant.

Prior to January 1, 2006, we accounted for share-based compensation plans in accordance with the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, as permitted by SFAS No. 123. Accordingly, no compensation expense was recognized for our stock options since all options granted had an exercise price equal to the market value of the underlying stock on the date of grant. There were no new options granted during 2005 or the first nine months of 2006.

The following pro forma information for the three and nine months ended September 30, 2005 shows net income and earnings per basic and diluted share as if compensation expense for our employee stock options had been determined on a fair value method of accounting:

	Pro forma	
	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(as restated)	
	(In millions, except per share amounts)	
Net income, as reported	$ 42.4	$ 105.8
Add: Stock-based employee compensation included in reported net income, net of related tax effects	0.8	2.0
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(0.8)	(2.1)
Pro forma net income	$ 42.4	$ 105.7
Earnings per share:		
Basic - as reported	$ 2.41	$ 5.98
Basic - pro forma	$ 2.41	$ 5.97
Diluted - as reported	$ 2.35	$ 5.91
Diluted - pro forma	$ 2.34	$ 5.90

Recent Accounting Pronouncements

In October 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position FAS 123(R)-5, *Amendment of FASB Staff Position FAS 123(R)-1* and FASB Staff Position FAS 123(R)-6, *Technical Corrections of FASB Statement No. 123(R)* ("FSPs"). These FSPs address whether a modification of an instrument in connection with an equity restructuring should be considered a modification for purposes of applying FSP FAS 123(R)-1 and address certain technical corrections of FASB Statement No. 123(R), respectively. These FSPs are effective in the first reporting period beginning after October 10, 2006 and October 20, 2006, respectively. We believe that adopting these FSPs will not have a material impact on our financial statements.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged. We are evaluating the impact of adopting SFAS No. 157 on our financial statements.

In September 2006, FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("SFAS No. 158"). This standard requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. The new reporting requirement and related new footnote disclosure rules of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The new measurement date requirement applies for fiscal years ending after December 15, 2008.

We estimate the impact of adopting SFAS No. 158 to be approximately $14 million, reflected as a reduction in net assets on our balance sheet, with no impact to our results of operations or cash flow.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that we quantify misstatements based on their impact on each of our financial statements and related disclosures. SAB 108 is effective as of the end of our 2006 fiscal year, allowing a one-time transitional cumulative effect adjustment to retained earnings as of January 1, 2006 for errors that were not previously deemed material, but are material under the guidance in SAB 108. We believe that SAB 108 will not have a material impact on our financial statements.

In June 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertain tax positions. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006 with earlier adoption permitted. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

In February 2006, FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140* ("SFAS No. 155"). SFAS No. 155 permits remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of fiscal years that begin after September 15, 2006. We are evaluating the impact of adopting SFAS No. 155 on our financial statements.

2. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005 (as restated)	2006	2005 (as restated)
	(In millions, except per share amounts)			
Numerator:				
Net income - numerator for basic and diluted earnings per share	$ 15.2	$ 42.4	$ 64.5	$ 105.8
Denominator:				
Weighted average shares - denominator for basic earnings per share	16.6	17.6	16.9	17.7
Effect of dilutive securities:				
Convertible debt	0.4	0.2	0.4	-
Employee stock options	0.1	0.2	0.2	0.2
Denominator for diluted earnings per share	17.1	18.0	17.5	17.9
Basic earnings per common share	$ 0.92	$ 2.41	$ 3.82	$ 5.98
Diluted earnings per common share	$ 0.89	$ 2.35	$ 3.69	$ 5.91

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3. INCOME TAXES

Our effective income tax rate, which includes a provision for state income and franchise taxes for non-insurance subsidiaries, was 38.2% for third quarter 2006, 33.5% for third quarter 2005, 35.8% for the first nine months of 2006 and 37.5% for the first nine months of 2005. The difference in the effective tax rate was due primarily to changes in the mix of state taxes related to our non-insurance subsidiaries.

As a result of an audit of the 2003 to 2004 tax years, the Internal Revenue Service (“IRS”) has proposed certain adjustments relating to our tax treatment of agency revenue. Currently, revenue from title policies issued through independent agents is recognized when the policies are reported by the agent for book and tax purposes. The IRS believes we are required to estimate the income and commissions associated with the sale of policies by agents during the tax year. We have estimated our maximum tax exposure with respect to the matter to be approximately $35 million; however, we are disputing the proposed adjustment as we continue to believe that our tax treatment of these transactions are correct and we believe we will prevail in any dispute with the IRS related to this matter. Accordingly, no amount has been accrued for this proposed IRS adjustment. We expect to defend the matter vigorously through the IRS appeal process and, if necessary,
through litigation. We do not expect that the ultimate resolution of this matter will have a material adverse effect on our financial condition or results of operations.

4. INVESTMENTS

Effective January 1, 2006, we adopted the FASB Staff Positions Nos. 115-1 and 124-1 (“FSPs”) which address the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of the impairment loss. The FSPs also provide guidance on the accounting subsequent to the recognition of an other-than-temporary impairment and require additional disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The adoption did not have a material effect on our financial statements.

Gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	September 30, 2006					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In millions)					
Fixed maturities:						
U.S. treasuries and U.S. government corporations and agencies	$ 5.4	$ 0.1	$ 8.0	$ 0.1	$ 13.4	$ 0.2
States and political subdivisions	14.4	-	71.3	0.9	85.7	0.9
Fixed maturities issued by foreign governments	3.1	-	0.4	-	3.5	-
Public utilities	1.6	-	1.0	-	2.6	-
Corporate securities	113.4	0.7	158.4	3.5	271.8	4.2
Mortgage-backed securities	34.4	0.5	106.2	2.8	140.6	3.3
Preferred stock	-	-	0.5	-	0.5	-
Equity securities	15.0	1.4	2.7	0.5	17.7	1.9
Total	$ 187.3	$ 2.7	$ 348.5	$ 7.8	$ 535.8	$ 10.5

As of September 30, 2006, we held 790 securities with a total estimated fair value of $535.8 million which had gross unrealized losses of $10.5 million. Of the 790 securities, 404 were in a continuous unrealized loss position for greater than one year and had a total estimated fair value of $348.5 million and gross unrealized losses of $7.8 million. The 404 securities with unrealized losses in excess of twelve months were either investment grade long-term bonds, preferred stocks or common stocks, and we have the intent and ability to hold those securities to recovery.

In connection with the previously announced redomestication of our principal underwriters to Nebraska, in the first quarter of 2007, we expect a significant dividend from one of our underwriters to the parent, LandAmerica Financial Group, Inc. The dividend will be funded by liquidating part of our fixed income portfolio. As we no longer have the intent to hold certain fixed income securities to recovery, we impaired 33 securities in our fixed income portfolio and realized a loss of $1.6 million during the period ended September 30, 2006. The remaining securities with unrealized losses in excess of twelve months are investment grade long-term bonds that we have the intent and the ability to hold to recovery.

We have concluded that none of the available-for-sale securities with unrealized losses at September 30, 2006, has experienced an other-than-temporary impairment. This conclusion was based on a number of factors including: (1) the significance of the decline; (2) whether the securities were rated below investment grade; (3) how long the securities have been in an unrealized loss position; and (4) our ability and intent to retain the investment for a sufficient period of time for it to recover.

At September 30, 2006, no industry group comprised more than 10 percent of our investment portfolio. This portfolio is widely diversified among various geographic regions in the United States, and is not dependent on economic stability of one particular region.

At September 30, 2006, we did not hold any fixed maturity securities in any single issuer which exceeded 10 percent of shareholder’s equity other than securities issued or guaranteed by the U.S. government.

5. MERGER AGREEMENT

On March 28, 2006, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Capital Title Group, Inc. (“CTG”) and CTG Acquisition Corporation (“Merger Sub”), a wholly owned subsidiary of LandAmerica. Under the terms of the Merger Agreement, the Merger Sub merged with and into CTG (the “Merger”) and CTG continued as the surviving corporation in the Merger and became a wholly-owned subsidiary of LandAmerica. On September 8, 2006, we completed the merger with CTG which consists of a title insurance underwriter, agent, and settlement services provider and related companies. CTG services customers primarily in Arizona, California and Nevada. We believe that our acquisition of CTG will strengthen our presence in key western states and add scale to our Lender Services platform.

The Merger was accounted for using the purchase method in accordance with FASB SFAS No. 141, *Business Combinations* (“SFAS No. 141”). Under the terms of the Merger Agreement, we acquired 100 percent of CTG’s common stock for approximately $252.3 million which consisted of $202.6 million of cash, including direct transaction costs of $3.3 million, and $49.7 million of our common stock, which represented 775,576 shares. In recording the merger, the value of the 775,576 shares issued was determined based on the measurement criteria in EITF 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*.

In accordance with SFAS No. 141, the cost of the Merger was preliminarily allocated to the assets acquired and liabilities assumed based on their fair values as of the close of the merger, with the amounts exceeding the fair value being recorded as goodwill. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained, including, but not limited to, valuation of separately identifiable intangibles, property, plant and equipment, title plants, deferred taxes, exiting certain contractual arrangements and the expected plans to rationalize the combined workforce. The valuations will be finalized within 12 months of the close of the merger. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in adjustments to separately identifiable intangibles and goodwill. The results of operations of CTG have been included in our consolidated financial statements since the merger date.

In connection with the Merger, we issued $100.0 million principal amount of Series E Senior Notes and drew down $100.0 million of our revolving credit facility to fund a portion of the merger. (See Note 11, “Credit Arrangements” for further information.)

Selected unaudited pro forma results of operations for the period ended September 30, 2006, assuming the merger had occurred as of January 1, 2005, is set forth below:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(In millions, except per share amounts)			
Total revenue	$ 1,050.1	$ 1,142.6	$ 3,149.2	$ 3,140.2
Net income	8.3	47.5	54.4	114.4
Net income per common share	0.48	2.60	3.09	6.22
Net income per common share assuming dilution	0.47	2.53	2.99	6.12

The above pro forma results are presented for information purposes only and may not be indicative of the operating results that would have occurred had this merger been consummated as of the beginning of 2005.

6. POLICY AND CONTRACT CLAIMS

We review our claims experience quarterly, and in conjunction with our outside actuaries, evaluate the adequacy of our claims reserve. We consider factors such as historical timing of reported claims and claims payment over the period in which policies are effective against actual experience by year of policy issue to determine the amount of claims liability required for each year for which policies are outstanding. We also consider the impact of current trends in marketplace activity, including refinance activity, which may shorten the time period a policy is outstanding, bankruptcies and individual large claims attributable to any particular period in determining the expected liability associated with each year.

Based on our review of the underlying claims data and trends therein, we have provided for claims losses using approximately 8.0% and 5.3% of operating revenue from the Title Operations segment for the third quarters of 2006 and 2005, respectively, and approximately 6.3% and 5.3% of operating revenue from the Title Operations segment for the first nine months of 2006 and 2005. The increase in the claims provision ratio was primarily due to upward development in policy years 2001 through 2005. Since there is an extended time period for which we are liable, slight changes in current claims experience can result in a significant impact in the amount of liability required for potential Incurred But Not Reported ("IBNR") claims. We believe that we have reserved appropriately for all reported and IBNR claims at September 30, 2006 based on the results of the actuarial evaluation and evaluation of any known trend.

7. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The following presents the estimated net pension expense recorded in the financial statements for each of the three and nine-month periods ending September 30, 2006, and 2005. The 2006 information is based on preliminary data provided by our consulting actuaries.

The amounts are as follows:

	Three Months Ended September 30,			
	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
	(In millions)			
Components of net pension (income) expense:				
Service cost	$ -	$ -	$ 0.2	$ 0.2
Interest cost	3.6	3.6	0.9	0.7
Expected return on plan assets	(4.5)	(3.9)	-	-
Amortization of unrecognized transition obligation	-	-	0.3	0.3
Prior service cost recognized	-	-	0.1	0.2
Recognized loss	1.8	0.9	0.2	-
(Gain) or loss due to settlement or curtailment	(2.0)	1.3	-	-
Net pension (income) expense	$ (1.1)	$ 1.9	$ 1.7	$ 1.4

	Nine Months Ended September 30,			
	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
	(In millions)			
Components of net pension expense:				
Service cost	$ -	$ -	$ 0.7	$ 0.6
Interest cost	10.8	10.6	2.7	2.3
Expected return on plan assets	(13.5)	(11.7)	-	-
Amortization of unrecognized transition obligation	-	-	0.9	0.9
Prior service cost recognized	-	-	0.3	0.4
Recognized loss	5.4	2.9	0.5	-
(Gain) or loss due to settlement or curtailment	-	3.5	-	-
Net pension expense	$ 2.7	$ 5.3	$ 5.1	$ 4.2

On December 31, 2004, we froze the accumulation of benefits available under our principal pension plan.

Weighted-average assumptions used to determine net cost for each of the three and nine-month periods ending September 30, 2006, and 2005 are as follows:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	5.50%	6.00%	5.50%	6.00%
Expected return on plan assets	8.25%	8.00%	N/A	