LANDAMERICA FINANCIAL GROUP INC
Form 10-Q
April 29, 2008

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 March 31, 2008

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 (State or other jurisdiction of incorporation or organization)	54-1589611 (I.R.S. Employer Identification No.)
5600 Cox Road Glen Allen, Virginia (Address of principal executive offices)	23060 (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 (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, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company 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	15,478,019 shares	April 25, 2008

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1.CONSOLIDATED FINANCIAL STATEMENTS

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions)

	March 31, 2008	December 31, 2007
	(Unaudited)	
ASSETS		
INVESTMENTS:		
Fixed maturities available-for-sale - at fair value (amortized cost: 2008 - $1,005.2; 2007 - $1,005.3)	$ 1,017.6	$ 1,019.1
Equity securities available-for-sale - at fair value (cost: 2008 - $85.2; 2007 - $85.6)	76.0	81.1
Fixed maturities trading – at fair value	119.8	124.5
Federal funds sold	16.4	59.6
Short-term investments	105.6	160.3
Total Investments	1,335.4	1,444.6
CASH	71.2	98.2
LOANS RECEIVABLE	645.7	638.4
ACCRUED INTEREST RECEIVABLE	15.8	16.8
NOTES AND ACCOUNTS RECEIVABLE;		
Notes (less allowance for doubtful accounts: 2008 - $1.8; 2007 - $1.8)	22.6	22.7
Trade accounts receivable (less allowance for doubtful accounts: 2008 - $10.8; 2007 - $11.1)	134.0	127.9
Total Notes and Accounts Receivable	156.6	150.6
INCOME TAXES RECEIVABLE	46.9	22.7
PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2008 - $245.1; 2007 - $233.6)	125.1	133.4
TITLE PLANTS	102.3	102.4
GOODWILL	809.1	809.9
INTANGIBLE ASSETS (less accumulated amortization: 2008 - $106.4; 2007 - $100.1)	87.9	94.4

DEFERRED INCOME TAXES		117.0		120.1
OTHER ASSETS		235.7		222.2
Total Assets	$	3,748.7	$	3,853.7

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)

	March 31, 2008 (Unaudited)	December 31, 2007
LIABILITIES		
POLICY AND CONTRACT CLAIMS	$ 887.0	$ 876.5
DEPOSITS	521.8	564.5
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	307.2	365.3
NOTES PAYABLE	584.0	579.5
DEFERRED SERVICE ARRANGEMENTS	196.5	199.9
OTHER LIABILITIES	81.8	67.3
Total Liabilities	2,578.3	2,653.0
SHAREHOLDERS' EQUITY		
Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2008 - 15,478,019; 2007 – 15,351,550	337.1	335.4
Accumulated other comprehensive loss	(29.4)	(26.2)
Retained earnings	862.7	891.5
Total Shareholders' Equity	1,170.4	1,200.7
Total Liabilities and Shareholders' Equity	$ 3,748.7	$ 3,853.7

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In millions, except per share amounts)
(Unaudited)

	2008	2007
REVENUE		
Operating revenue	$ 656.2	$ 911.3
Investment and other income	30.3	30.3
Net realized investment (losses) gains	(0.1)	7.0
	686.4	948.6
EXPENSES		
Agents’ commissions	259.8	340.4
Salaries and employee benefits	228.8	307.8
General, administrative and other	152.4	186.8
Provision for policy and contract claims	57.1	56.0
Depreciation and amortization	16.0	16.8
Interest expense	12.3	12.7
Impairment of intangible and long-lived assets	-	20.8
	726.4	941.3
(LOSS) INCOME BEFORE INCOME TAXES	(40.0)	7.3
INCOME TAX (BENEFIT) EXPENSE	(15.8)	2.6
NET (LOSS) INCOME	$ (24.2)	$ 4.7
NET (LOSS) INCOME PER SHARE	$ (1.60)	$ 0.27
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	15.1	17.2
NET (LOSS) INCOME PER SHARE ASSUMING DILUTION	$ (1.60)	$ 0.26
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ASSUMING DILUTION	15.1	18.0
CASH DIVIDENDS DECLARED PER SHARE	$ 0.30	$ 0.22

See Notes to Consolidated Financial Statements.

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In millions)
(Unaudited)

	2008	2007
Cash flows from operating activities:		
Net (loss) income	$ (24.2)	$ 4.7
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation and amortization	16.0	16.8
Amortization of bond premium	1.2	1.5
Impairment of intangible and long-lived assets	-	20.8
Net realized investment losses (gains)	0.1	(7.0)
Net change in fair value of trading securities	4.2	(9.6)
Deferred income tax expense (benefit)	2.5	(7.5)
Change in assets and liabilities, net of businesses acquired:		
Accounts and notes receivable	(5.6)	10.2
Income taxes receivable/payable	(22.3)	47.0
Accounts payable and accrued expenses	(57.0)	11.6
Pending trades of trading securities, net	2.3	27.1
Policy and contract claims	10.5	11.3
Deferred service arrangements	(3.4)	(12.3)
Other	0.3	4.6
Net cash (used in) provided by operating activities	(75.4)	119.2
Cash flows from investing activities:		
Purchases of title plant, property and equipment	(3.4)	(6.7)
Purchases of businesses, net of cash acquired	-	(5.8)
Change in short-term investments	54.7	142.3
Cost of investments acquired:		
Fixed maturities available-for-sale	(57.0)	(82.5)
Equity securities available-for- sale	(3.2)	(21.0)
Proceeds from investment sales or maturities:		
Fixed maturities available-for-sale	59.6	128.9
Equity securities available-for-sale	6.2	27.3
Net change in federal funds sold	43.2	(227.7)
Change in loans receivable	(7.5)	(26.7)
Other	(1.4)	(0.8)
Net cash provided by (used in) investing activities	91.2	(72.7)
Cash flows from financing activities:		
Net change in deposits	(42.7)	157.6
Proceeds from the exercise of stock options and incentive plans	-	1.0
Tax benefit of stock options exercised	-	0.6
Cost of shares repurchased	-	(39.9)
Dividends paid	(4.6)	(3.9)
Proceeds from issuance of notes payable	54.0	0.2
Payments on notes payable	(49.5)	(114.4)
Net cash (used in) provided by financing activities	(42.8)	1.2

Net (decrease) increase in cash		(27.0)		47.7
Cash at beginning of period		98.2		82.5
Cash at end of period	$	71.2	$	130.2
Supplemental cash flow information:				
Non-cash investing activities – transfer of fixed maturities from available-for-sale to trading	$	-	$	142.6
Pending purchases of fixed maturities available-for-sale		13.9		17.0
Pending sales of fixed maturities available-for-sale		8.2		16.6

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(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, 2006	17.6	$ 465.3	$ (32.2)	$ 962.7	$ 1,395.8
Comprehensive income:					
Net income	-	-	-	4.7	4.7
Other comprehensive (loss) income:					
Net unrealized loss on securities – net of tax benefit of $1.3	-	-	(2.2)	-	(2.2)
Amortization of minimum pension liability – net of tax expense of $0.5	-	-	0.9	-	0.9
					3.4
Common stock retired	(0.6)	(39.9)	-	-	(39.9)
Stock options and incentive plans	0.2	5.3	-	-	5.3
Common dividends ($0.22/share)	-	-	-	(3.9)	(3.9)
BALANCE – March 31, 2007	17.2	$ 430.7	$ (33.5)	$ 963.5	$ 1,360.7
BALANCE – December 31, 2007	15.3	$ 335.4	$ (26.2)	$ 891.5	$ 1,200.7
Comprehensive loss:					
Net loss	-	-	-	(24.2)	(24.2)
Other comprehensive (loss) income:					
Net unrealized loss on securities, net of tax benefit of $2.1	-	-	(4.0)	-	(4.0)
Postretirement benefits liability adjustment, net of tax expense of $0.4	-	-	0.7	-	0.7
Foreign currency translation	-	-	0.1	-	0.1
					(27.4)
Stock options and incentive plans	0.2	1.7	-	-	1.7
Common dividends ($0.30/share)	-	-	-	(4.6)	(4.6)

BALANCE – March 31, 2008	15.5	$	337.1	$	(29.4)	$	862.7	$	1,170.4

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, 2007. 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. Due to the seasonal nature of our business, operating results for the interim periods are not necessarily indicative of results for a full year. Certain prior year amounts have been reclassified to conform to the current year presentation.

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.

Recently Adopted Accounting Standards

In March 2007, the Financial Accounting Standards Board (“FASB”) ratified Emerging Issues Task Force (“EITF”) Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements (“EITF No. 06-10”). EITF No. 06-10 requires an employer to recognize a liability for the post-retirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either Statement of Financial Accounting Standard (“SFAS”) 106 or Accounting Principles Board (“APB”) Opinion No. 12 if the employer has agreed to maintain a life insurance policy during the employee’s retirement or provide the employee with a death benefit. EITF No. 06-10 also requires an employer to recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. We adopted EITF No. 06-10 as of January 1, 2008 which did not have a material effect on our financial statements.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. We adopted the provisions of SFAS 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in the financial statements as of January 1, 2008. For further discussion see, Note 3, “Investments.” In February 2008, the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (“FSP 157-2”). FSP 157-2 delayed the effective date of SFAS 157 for all non financial assets and liabilities to January 1, 2009. We are evaluating the effect of adopting SFAS 157 on our financial statements for non financial assets and liabilities.

Recently Issued Accounting Standards

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). It requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. This statement is effective for us beginning after January 1, 2009. We do not believe the effect of adopting SFAS 161 will have a material effect on our financial statements.

2. EARNINGS PER SHARE

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

	Three Months Ended March 31, 2008	2007
	(In millions, except per share amounts)	
Numerator:		
Net (loss) income for basic and diluted earnings per share	$ (24.2)	$ 4.7
Denominator:		
Weighted average shares for basic earnings per share	15.1	17.2
Effect of dilutive securities:		
Convertible debt	-	0.6
Employee stock options and restricted stock	-	0.2
Denominator for diluted earnings per share	15.1	18.0
Basic (loss) earnings per share	$ (1.60)	$ 0.27
Diluted (loss) earnings per share	$ (1.60)	$ 0.26

For the three months ended March 31, 2008, 0.1 million shares, representing all potential dilutive shares for the period, were excluded from the diluted share total due to the net loss for the period.

3. INVESTMENTS

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. We adopted the provisions of SFAS 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in the financial statements as of January 1, 2008.

Under SFAS 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with SFAS 157, we have categorized our financial instruments, based on the quality and reliability of inputs to the valuation, into the following fair value hierarchy:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets

- Level 2 – inputs to the valuation methodology include observable market based inputs or unobservable inputs that are corroborated by market data (quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; market-corroborated inputs, etc)

- Level 3 – inputs to the valuation methodology are unobservable

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Changes in the observable or unobservable attributes of valuation inputs may result in a future reclassification between hierarchy levels.

Our financial instruments in Level 1 generally include U.S. treasuries and equities listed in active markets. Level 2 generally includes U.S. government corporations and agency bonds, municipal bonds, certain corporate debt, mandatory redeemable preferred stock and certain mortgage and asset-backed securities. Level 2 financial instruments are valued based on relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. Valuation pricing models are primarily industry-standard models that consider various assumptions, including time value, yield curve, benchmark yields, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying or similar financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace or can be derived or supported by observable market data. We do not have any Level 3 financial instruments as of March 31, 2008.

The following table presents the fair value hierarchy for financial instruments measured at fair value on a recurring basis as of March 31, 2008.

	Total	Fair Value Measurements at March 31, 2008 Using	
		Level 1	Level 2
		(In millions)	
Assets:			
Fixed maturities trading	$ 119.8	$ -	$ 119.8
Available-for-sale securities			
Fixed maturities	1,017.6	41.6	976.0
Equity	76.0	76.0	-
Total	$ 1,213.4	$ 117.6	$ 1,095.8

Holding losses of $0.8 million on trading fixed maturities were recorded in net realized investment gains within the statement of operations for the period ended March 31, 2008.

4. INCOME TAXES

Our effective income tax rate was 39.5% for first quarter 2008 and 36.1% for first quarter 2007. The difference in the effective tax rate was due primarily to favorable permanent differences relative to the pretax loss and an increase in the state tax rate.

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. The effect of this proposed adjustment would be an increase in the current tax liability and an increase in deferred tax assets of $35 million. However, we are disputing the proposed adjustment as we continue to believe that our tax treatment of these transactions is correct and we believe we will prevail in any dispute with the IRS related to this matter. Accordingly, no interest or penalties have been accrued for this proposed IRS adjustment as of March 31, 2008. 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.

Since December 31, 2007, there have been no events that have had a material impact on our tax accounts.

5. POLICY AND CONTRACT CLAIMS

A summary of our policy and contract claims, broken down into its components of known claims and incurred but not reported claims ("IBNR") follows:

	March 31, 2008		December 31, 2007	
	(Dollars in millions)			
Known claims	$ 178.1	20.1%	$ 165.8	18.9%
IBNR	708.9	79.9	710.7	81.1
Total policy and contract claims	$			