LANDAMERICA FINANCIAL GROUP INC
Form 10-K405
March 29, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2001

OR

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

COMMISSION FILE NO. 1-13990

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

| | |
|---|---|
| Virginia<br>(State or other jurisdiction of incorporation or organization) | 54-1589611<br>(IRS Employer Identification No.) |
| 101 Gateway Centre Parkway<br>Richmond, Virginia<br>(Address of principal executive offices) | 23235-5153<br>(Zip Code) |

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of Securities | Name of Exchange on Which Registered |
|---|---|
| Common Stock, no par value | New York Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:
None

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

The aggregate market value of voting stock held by non-affiliates of the registrant on March 18, 2002 was approximately $594.9 million. Executive officers and directors of the registrant are considered affiliates for purposes of this calculation but should not necessarily be deemed affiliates for any other purpose.

The number of shares of Common Stock, without par value, outstanding on

March 18, 2002 was 18,550,924.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. [ X ]

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2002 Annual Meeting of Shareholders (to be filed) are incorporated by reference into Part III hereof.

# PART I

## ITEM 1. BUSINESS

### The Company

LandAmerica Financial Group, Inc. (the "Company") is a holding company organized under the laws of the Commonwealth of Virginia on June 24, 1991. The Company, through its subsidiaries, is engaged in the business of issuing title insurance policies and performing other real estate-related services for both residential and commercial real estate transactions. As a holding company, the Company has greater flexibility in conducting certain operations, especially with regard to capital transactions, while the operating title insurance subsidiaries remain subject to regulation by the various states. See "Regulation" below.

The Company has its principal executive offices at 101 Gateway Centre Parkway, Richmond, Virginia 23235-5153. Its telephone number is (804) 267-8000. Unless the context otherwise requires, the Company, as used herein, refers to the Company and each of its subsidiaries.

### Overview of the Company's Operations

Title Insurance. The Company issues title insurance policies through its various title underwriting subsidiaries. The Company's three principal title underwriting subsidiaries are Commonwealth Land Title Insurance Company ("Commonwealth"), Lawyers Title Insurance Corporation ("Lawyers Title") and Transnation Title Insurance Company ("Transnation"). The Company also owns six other title insurance underwriters, including Commonwealth Land Title Insurance Company of New Jersey, Title Insurance Company of America and Industrial Valley Title Insurance Company. The collective operations of these subsidiaries cover the entire United States (with the exception of Iowa, which does not recognize title insurance), certain territories of the United States and Canada.

In connection with the issuance of title insurance policies, the Company performs title search and examination services and also offers closing protection letters to lenders and owners who purchase title insurance. The Company also furnishes certificates of title and abstracts of title in some states.

Escrow and Closing Services. In addition to the issuance of title insurance policies, the Company provides escrow and closing services to a broad-based customer group that includes lenders, developers, real estate agents, attorneys and home buyers and sellers. In California and a number of western states, it is a general practice, incident to the issuance of title insurance policies, to hold funds and documents in escrow for delivery in real estate transactions upon fulfillment of the conditions to such delivery. In the mid-western states, Florida and some eastern cities, it is customary for the title company to close the transaction and disburse the sale or loan proceeds. Fees for such escrow and closing services are generally separate and distinct from premiums paid for title insurance policies and other real estate-related services.

Real Estate Transaction Management Services. Through its LandAmerica OneStop operation, the Company offers to the national and regional mortgage lending community a full range of integrated residential real estate services and the ability to manage the delivery of those services through a centralized source. LandAmerica OneStop provides these mortgage originators with a single, convenient point of contact through which they may place all of their orders for title insurance and real estate-related services. The transaction management services of LandAmerica OneStop include the coordination and delivery of title insurance, credit reporting, flood certification, property appraisal and valuation, closing and escrow services, real estate tax services, document preparation and property inspections. These services are provided by LandAmerica OneStop, other subsidiaries of the Company or through joint ventures or strategic alliances with third parties.

The Company also is a provider of certain specialized services usually associated with real estate transactions through LandAmerica Exchange Company. LandAmerica Exchange Company facilitates property exchanges pursuant to Section 1031 of the Internal Revenue Code generally by holding the sale proceeds from one transaction until a second acquisition occurs, thereby assisting customers in deferring the recognition of taxable income.

Principal Title Underwriting Subsidiaries

Commonwealth. Commonwealth was founded as a title insurance company in 1876 and was incorporated in the Commonwealth of Pennsylvania on April 1, 1944. Commonwealth is licensed by the insurance departments of 49 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

Lawyers Title. Lawyers Title, a Virginia corporation, has been engaged primarily in the title insurance business since 1925. Lawyers Title conducts business in 49 states and in the District of Columbia, the territories of Puerto Rico and the U.S. Virgin Islands, the Bahamas and a number of Canadian provinces.

Transnation. Transnation, an Arizona corporation, is the successor to Transamerica Title Insurance Company, which commenced business on March 26, 1910. Transnation is licensed by the insurance departments of 40 states and the District of Columbia.

Title Insurance and Underwriting

Title Insurance. Title insurance policies are insured statements of the condition of title to real property. Such policies indemnify the insured from losses resulting from certain outstanding liens, encumbrances and other defects in title to real property that appear as matters of public record, and from certain other matters not of public record. Title insurance is generally accepted as the most efficient means of determining title to, and priority of interests in, real estate in nearly all parts of the United States. Many of the principal customers of title insurance companies buy insurance for the accuracy and reliability of the title search as well as for the indemnity features of the policy. The beneficiaries of title insurance policies are generally owners or buyers of real property or parties who make loans using real property as security. An owner's policy protects the named insured against title defects, liens and encumbrances existing as of the date of the policy and not specifically excluded or excepted from its provisions, while a lender's policy, in addition to the foregoing, insures against the invalidity of the lien of the insured mortgage and insures the priority of the lien as stated in the title policy.

While most other forms of insurance provide for the assumption of risk of loss arising out of unforeseen future events, title insurance serves to protect the policyholder from the risk of loss from events that predate the issuance of the policy. This distinction underlies the low claims loss experience of title insurers as compared to other insurance underwriters. Losses generally result either from judgment errors or mistakes made in the title search and examination process or the escrow process or from hidden defects such as fraud, forgery, incapacity or missing heirs. Operating expenses, on the other hand, are higher for title insurance companies than for other companies in the insurance industry. Most title insurers incur considerable costs relating to the personnel required to process forms, search titles, collect information on specific properties and prepare title insurance commitments and policies.

Underwriting. The Company issues title insurance policies on the basis of a title report, which is prepared pursuant to underwriting guidelines prescribed by the Company, after a search



of the public records, maps and documents to ascertain the existence of easements, restrictions, rights of way, conditions, encumbrances, liens or other matters affecting the title to, or use of, real property. In certain instances, a visual inspection of the property is also made. Title examinations may be made by branch employees, agency personnel or approved attorneys, whose reports are utilized by or rendered to a branch or agent and are the basis for the issuance of policies by the Company. In the case of difficult or unusual legal or underwriting issues involving potential title risks, the branch office or agent is instructed to consult with a designated supervising office. The Company's contracts with independent agents require that the agent seek prior approval of the Company in order to commit the Company to assume a risk over a stated dollar limit.

The Company owns a number of title plants and in some areas leases or participates with other title insurance companies or agents in the cooperative operation of such plants. Title plants are compilations of copies of public records, maps and documents that are indexed to specific properties in an area, and they serve to facilitate the preparation of title reports. In many of the larger markets, the title plant and search procedures have been automated. To maintain the value of the title plants, the Company continually updates its records by regularly adding current information from the public records and other sources. In this way, the Company maintains the ability to produce quickly and at a reduced expense a statement of the instruments that constitute the chain of title to a particular property.

Direct and Agency Operations

The Company issues title insurance policies through its direct operations (which include branch offices of its title insurers and wholly owned subsidiary agencies of the Company) or through independent title insurance agents. Where the policy is issued through its direct operations, the search is performed by or at the direction of the Company, and the premium is collected and retained by the Company. Where the policy is issued through an independent agent, the agent generally performs the search (in some areas searches are performed by approved attorneys), examines the title, collects the premium and retains a portion of the premium. The remainder of the premium is remitted to the Company as compensation for bearing the risk of loss in the event a claim is made under the policy. The percentage of the premium retained by an agent varies from region to region and is sometimes regulated by the states. The Company is obligated to pay title claims in accordance with the terms of its policies, regardless of whether it issues policies through direct operations or independent agents.

The premium for title insurance is due in full when the real estate transaction is closed. Title insurance premium revenues from direct operations are recognized by the Company upon the closing of the transaction, whereas premium revenues from agency operations are recognized by the Company upon receipt of such premiums. Premiums from independent agents are typically remitted to the Company an average of 90 days after the closing of the real estate transaction.

Insured Risk on Policies in Force

The amount of the insured risk or "face amount" of insurance under a title insurance policy is generally equal to either the purchase price of the property or the amount of the loan secured by the property. The insurer is also responsible for the cost of defending the insured title against covered claims. The insurer's actual exposure at any time is significantly less than the total face amount of policies in force because the risk on an owner's policy is often reduced over time as a result of subsequent transfers of the property and the reissuance of title insurance by other title insurance underwriters, and the coverage of a lender's policy is reduced and eventually terminated as a result of payment of the mortgage loan. Because of these factors, the total contingent liability of a title underwriter on outstanding policies cannot be precisely ascertained.



In the ordinary course of business, the Company's underwriting subsidiaries represent and defend the interests of their insureds, and provide on the Company's consolidated books for estimated losses and loss adjustment expenses. Title insurers are sometimes subject to unusual claims (such as claims of Indian tribes to land formerly inhabited by them) and to claims arising outside the insurance contract, such as for alleged negligence in search, examination or closing, alleged improper claims handling and alleged bad faith. The damages alleged in such claims arising outside the insurance contract may exceed the stated liability limits of the policies involved. While the Company in the ordinary course of its business has been subject from time to time to these types of claims, the Company's losses to date on such claims have not been significant in number or material in dollar amount to the Company's financial condition.

Liabilities for estimated losses and loss adjustment expenses represent the estimated ultimate net cost of all reported and unreported losses incurred through December 31, 2001. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and loss adjustment expenses are adequate. Independent actuaries review the adequacy of reserves on an interim basis and certify as to their adequacy on an annual basis. The reserve estimates are continually reviewed and adjusted as the Company's loss experience develops or new information becomes known. Any adjustments to loss reserve estimates are included as a current operating expense. The provision for policy and contract claims as a percentage of operating revenues for the fiscal years ended December 31, 2001, 2000 and 1999 was 4.0%, 4.4% and 4.9%, respectively.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations."

The Company generally pays losses in cash; however, it sometimes settles claims by purchasing the interest of the insured in the real property or the interest of the claimant adverse to the insured. Assets acquired in this manner are carried at the lower of cost or estimated realizable value, net of any indebtedness thereon.

Standard & Poors Corporation ("S&P") has assigned a financial strength rating of "A-" to the title insurance operations of the Company. According to S&P, an insurer rated "A" has strong financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings, and the minus (-) rating indicates relative standing within the "A" category. S&P assigns a ratings outlook along with its letter ratings to indicate its expectations of trends that relate to the financial strength rating for the rated company. The ratings outlook assigned by S&P may be either "positive," "stable" or "negative." According to S&P, the ratings outlook for the Company is "stable." Fitch, Inc. ("Fitch") has assigned an "A" rating to the financial strength of the Company. According to Fitch, an "A" rating is assigned to those companies that possess strong capacity to meet policyholder and contract obligations, where risk factors are moderate and the impact of any adverse business and economic factors is expected to be small. Fitch also assigns a ratings outlook along with its letter ratings to indicate its expectations of trends that relate to the financial strength rating for the rated company. The ratings outlook assigned by Fitch may be either "positive," "stable" or "negative." According to Fitch, the ratings outlook for the Company is "stable." The S&P and Fitch ratings are not designed for the protection of investors and do not constitute recommendations to buy, sell or hold any security.

The Company places a high priority on maintaining effective quality assurance and claims administration programs. The Company's quality assurance program focuses on quality control, claims prevention and product risk assessment for its independent agencies. The claims administration program focuses on improving liability analysis, prompt, fair and effective handling of claims, prompt evaluation of settlement or litigation with first and third-party claimants and appropriate use of ADR (Alternative Dispute Resolution) in claims processing. In addition, to reduce the incidence of agency defalcations, the Company has established due



diligence requirements in connection with the appointment of new agents, procedures for renewing existing agents and an Agency Audit Program. The Company continues to refine its systems for maintaining effective quality assurance and claims administration programs.

Reinsurance and Coinsurance

The Company distributes large title insurance risks through the mechanisms of reinsurance and coinsurance. In reinsurance agreements, the reinsurer accepts that part of the risk the primary insurer (the "ceding company" or "ceder") decides not to retain in consideration for a portion of the premium. A number of factors may enter into a company's decision to reinsure, including retention limits imposed by state law, customer demands and the risk retention philosophy of the company. The ceder, however, remains liable to the insured for the total risk, whether or not the reinsurer meets its obligation. The Company may reinsure from among its own title insurance subsidiaries or may reinsure with unaffiliated reinsurers. As a general rule, when the Company purchases reinsurance on a particular risk from unaffiliated reinsurers, it will generally retain a primary risk of $5.0 million and may participate with such reinsurers on liability amounts above the primary level on a secondary level. Reinsurance is generally purchased from unaffiliated reinsurers if the risk is greater than $300.0 million.

The Company's title insurance subsidiaries assume reinsurance from unaffiliated title insurance underwriters pursuant to a standard reinsurance agreement concerning specific title insurance risks for properties on which they assume a portion of the liability. The Company's title insurance subsidiaries have entered into numerous reinsurance agreements with other title insurance underwriters on specific transactions. The Company's exposure on all reinsurance assumed is reduced due to the ceding company's retention of a substantial amount of primary risk. In addition, exposure under these agreements generally ceases upon a transfer of the insured properties and, with respect to insured loans, is decreased by reductions in mortgage loan balances. Because of this, the actual exposure is much less than the total reinsurance the Company has assumed. The Company provides loss reserves on assumed reinsurance business on a basis consistent with reserves for direct business.

The Company utilizes coinsurance to enable it to provide coverage in amounts greater than it would be willing or able to undertake individually. In coinsurance transactions, each individual underwriting company issues a separate policy and assumes a fraction of the overall total risk. Each coinsurer is liable only for the particular fraction of the risk it assumes.

The Company's title insurance subsidiaries enter into reinsurance and coinsurance arrangements with most of the larger participants in the title insurance market and such arrangements are not materially concentrated with any single title insurance company. Revenues and claims from reinsurance are not material to the Company's business as a whole.

The Company maintains excess of loss catastrophic insurance through Lloyd's of London and Ace Capital Title Reinsurance Company totaling $200.0 million. The Lloyd's policy provides fidelity and title loss coverage up to $100.0 million with a $20.0 million deductible for title losses and a lesser deductible for other losses. The Ace policy covers an additional $100.0 million in title exposure for any covered loss that exceeds $100.0 million.

Title Insurance Revenues

The table below sets forth, for the years ended December 31, 2001, 2000 and 1999, the approximate dollars and percentages of the Company's revenues for the ten states representing the largest percentages of such revenues and for all other states combined:



Revenues by State
(Dollars in thousands)

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2001 | | 2000 | | 1999 | |
| Texas | $ 299,688 | 14.1% | $ 277,547 | 15.9% | $ 275,271 | 13.8% |
| California | 254,281 | 12.0% | 195,016 | 11.1% | 222,319 | 11.1% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Florida | 139,756 | 6.6% | 136,976 | 7.8% | 168,808 | 8.4% |
| Michigan | 130,499 | 6.2% | 96,688 | 5.5% | 111,992 | 5.6% |
| Pennsylvania | 130,282 | 6.1% | 117,131 | 6.7% | 138,028 | 6.9% |
| New York | 109,592 | 5.2% | 98,041 | 5.6% | 113,510 | 5.7% |
| Colorado | 82,485 | 3.9% | 48,357 | 2.8% | 53,530 | 2.7% |
| New Jersey | 78,022 | 3.7% | 74,620 | 4.3% | 76,897 | 3.8% |
| Virginia | 70,214 | 3.3% | 56,290 | 3.2% | 53,511 | 2.7% |
| Arizona | 64,207 | 3.0% | 52,759 | 3.0% | 60,914 | 3.0% |
| Other | 656,022 | 31.0% | 553,060 | 31.5% | 657,802 | 32.9% |
| Total Title Revenues | 2,015,048 | 95.1% | 1,706,485 | 97.4% | 1,932,582 | 96.6% |
| Non-Title Revenues | 104,426 | 4.9% | 44,785 | 2.6% | 67,432 | 3.4% |
| Total Revenues | $2,119,474 | 100.0% | $1,751,270 | 100.0% | $2,000,014 | 100.0% |

Sales and Marketing

The Title Insurance Market. For sales and marketing purposes, the Company generally views residential real estate activities and commercial real estate activities as two distinct sources of title insurance business. Residential real estate business results from the construction, sale, resale and refinancing of residential properties, while commercial real estate business results from similar activities with respect to properties with a business or commercial use. The Company has emphasized the development of its residential real estate business over the last decade, while maintaining a leadership position in insuring commercial real estate transactions. Although precise data is not available to compare the percentage of total premium revenues of the Company derived from commercial versus residential real estate activities, approximately 83% of such revenues in 2001 resulted from policies providing coverage of $1.0 million or less (which tend to be residential) and approximately 17% of such revenues resulted from policies providing coverage in excess of $1.0 million.

Residential Transactions. The Company's primary source of residential business is from the local real estate community, such as attorneys, real estate brokers and developers, financial institutions, mortgage brokers and independent escrow agents. Maintenance and expansion of these referral sources is integral to the Company's marketing strategy for local residential business. Although most of the Company's residential business arises from these local relationships, large national and regional residential mortgage originators continue to expand their role in the residential real estate market. These lenders are attracted to title insurance providers who can offer a centralized source for title insurance and a broad array of services related to residential real estate transactions. The Company has responded to this trend in the market by establishing LandAmerica OneStop as a transaction manager offering a single, convenient point of contact through which national and regional mortgage lenders can place orders for title insurance and other services related to real estate transactions. See "Overview of the Company's Operations - Real Estate Transaction Management Services."

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The Company continues to develop its national affiliated agency relationships that include builders, realtors, lenders and vendor managers. Often these relationships attract residential transactions on a regional or statewide basis.

Commercial Transactions. The Company is one of the leading providers of title insurance for commercial transactions. The Company's National Commercial Services ("NCS") division specializes in the sale and servicing of title insurance for complex commercial and multi-property transactions. The Company has NCS offices in 20 strategic metropolitan areas in the United States. Each NCS office markets title insurance products, appraisals, surveys and related services to large commercial customers located in its sales territory and acts as a single point of contact for the customer's title insurance needs throughout the country. The Company also markets title insurance for commercial transactions through local direct operations and independent agents.

In addition, the Company is one of the most strongly capitalized title insurers in the industry, with an aggregate statutory surplus of $451.2 million as of December 31, 2001. The financial strength of the Company is an important factor in marketing the Company's commercial title business capabilities, enabling it to underwrite larger title policies and retain higher levels of risk without purchasing reinsurance from a third party. The Company's capital position supports financial strength ratings of "A-" from Standard & Poors and "A" from Fitch. These ratings are important in competing for commercial title insurance business.

Marketing Strategy. The Company has begun a transition from title insurance product delivery to real estate transaction solution provider. This strategy entails becoming more of a single source provider of market specific products and services.

Customers

As of December 31, 2001, no single independent agent was responsible for more than 5% of the Company's title insurance revenues. In addition, the Company is not dependent upon any single customer or any single group of customers. The loss of any one customer would not have a material adverse effect on the Company.

Competition

The business of providing real estate transaction services is very competitive. Competition for residential title insurance business is based primarily on service and, to a lesser extent, price. Service quality is based upon a number of factors, including technological capabilities (resulting in a readily accessible, efficient and reliable product) and the ability to respond quickly to customers. With respect to national and regional mortgage lenders, service quality includes a large distribution network and the ability to deliver a broad array of real estate services quickly, efficiently and through a single point of contact. Competition for commercial title business is based primarily on price, service, expertise in complex transactions and the size and financial strength of the insurer. Title insurance underwriters also compete for agents on the basis of service and commission levels.

The Company is one of the largest title insurance underwriters in the United States based on title premium revenues. Its principal competitors are other major title insurance underwriters and their agency networks. The Company's principal competitors during 2001 were Fidelity National Financial, Inc., Old Republic International Corporation, Stewart Information Services, Inc., and The First American Corporation. Of the more than one hundred title insurance underwriting companies licensed in the United States, the top five companies accounted for approximately 89% of the title insurance market in 2000 based on public filings made by those companies.

The Company's title insurance subsidiaries are subject to regulation by the insurance authorities of the states in which they do business. See "Regulation." Within this regulatory framework, the Company competes with respect to premium rates, coverage, risk evaluation, service and business development.

State regulatory authorities impose underwriting limits on title insurers based primarily on levels of available capital and surplus. The Company has underwriting limits that are comparable to its competitors. While such limits may theoretically hinder the Company's title insurance subsidiaries' assumption of a particular large underwriting liability, in practice the Company has established its own internal risk limits at levels substantially lower than those allowed by state law. In addition, the Company may spread the risk of a large underwriting liability over its three principal title underwriting subsidiaries. Therefore, statutory capital-based risk limits are not considered by the Company to be a significant factor in the amount or size of underwriting it may undertake.

Regulation

The title insurance business is regulated by state regulatory authorities who possess broad powers relating to the granting and revoking of licenses, and the type and amount of investments which the Company's title insurance subsidiaries may make. These state authorities also regulate insurance rates, forms of policies, claims handling procedures and the form and content of required annual statements, and have the power to audit and examine the financial and other records of these companies. Some states require title insurers to own or lease title plants. A substantial portion of the assets of the Company's title underwriting subsidiaries consists of their portfolios of investment securities. Each of these subsidiaries is required by the laws of its state of domicile to maintain assets of a statutorily defined quality and amount. See "Investment Policies" below. Under state laws, certain levels of capital and surplus must be maintained and certain amounts of portfolio securities must be segregated or deposited with appropriate state officials. State regulatory policies also restrict the amount of dividends which insurance companies may pay without prior regulatory approval. Generally, all of the title underwriters that meet certain financial thresholds are required to engage independent auditors to audit their statutory basis financial statements which, along with the auditor's report, must be filed with the state insurance regulators.

The National Association of Insurance Commissioners (the "NAIC") has adopted model legislation which if enacted would regulate title insurers and agents nationally and change certain statutory reporting requirements. The proposed legislation also would require title insurers to audit agents periodically and require licensed agents to maintain professional liability insurance. A number of states have adopted legislation similar to some of the provisions contained in the NAIC model legislation. The Company cannot predict whether all or any portion of the proposed legislation or any similar legislation will be adopted in any other states. Also, the NAIC has adopted an instruction requiring an annual certification of reserve adequacy by a qualified actuary. Because all of the states in which the Company's title insurance subsidiaries are domiciled require adherence to NAIC filing procedures, each such subsidiary, unless it qualifies for an exemption, must file an actuarial opinion with respect to the adequacy of its reserves.

Many state insurance regulatory laws intended primarily for the protection of policyholders contain provisions that require advance approval by state agencies of any change in control of an insurance company or insurance holding company that is domiciled (or, in some cases, doing business) in that state. Under such current laws, any future transaction that would constitute a change in control of the Company would generally require approval by the state insurance departments of Arizona, California, New Jersey, New York, Ohio, Pennsylvania, Tennessee, Texas, and Virginia. Such a requirement could have the effect of delaying or preventing certain transactions affecting the control of the Company or the ownership of the



Company's Common Stock, including transactions that could be advantageous to the shareholders of the Company.

Investment Policies

The Company earns investment income from its portfolio consisting primarily of fixed-maturity debt securities issued principally by corporations and United States, state and local jurisdictions, as well as by United States government agencies. Substantially all of this portfolio is located in the Company's title underwriting subsidiaries. At December 31, 2001, approximately 98% of the Company's investment portfolio consisted of investment grade securities. Under the Company's investment guidelines, up to 15% of the investment portfolio may be invested in non-investment grade securities. The Company's portfolio is managed to comply with the various state regulatory requirements while maximizing net after-tax yield. The Company generally does not invest in common stock issued by unaffiliated entities. The investment portfolio is managed by professional investment advisors under guidelines that govern the types of permissible investments, investment quality, maturity and duration, and concentration of issuer. These guidelines, and the Company's investment strategies, are established and periodically re-examined by the Investment Funds Committee of the Company's Board of Directors. This Committee also reviews the performance of the investment advisors on a quarterly basis. See Note 3 to the Consolidated Financial Statements.

Cyclicality and Seasonality

The title insurance business is closely related to the overall level of residential and commercial real estate activity, which is generally affected by the relative strength or weakness of the United States economy. In addition, title insurance volumes fluctuate based on the effect changes in interest rates have on the level of real estate activity. Economic downturns, or periods of increasing interest rates, usually have an adverse impact on real estate activity and therefore premium and fee revenues. In contrast, real estate activity usually increases when interest rates fall.

Historically, residential real estate activity has been generally slower in the winter, when fewer families buy or sell homes, with increased volumes in the spring and summer. Residential refinancing activity is generally more uniform throughout the seasons, but is subject to interest rate variability. The Company typically reports its lowest revenues in the first quarter, with revenues increasing into the second quarter and through the third quarter. The fourth quarter customarily may be as strong as the third quarter, depending on the level of activity in the commercial real estate market.

Employees

As of December 31, 2001, the Company had 8,642 full time and 339 part time employees. The Company's relationship with its employees is good. Except for nine employees in Pittsburgh, Pennsylvania, no employees of the Company are covered by any collective bargaining agreements, and the Company is not aware of any union organizing activity relating to its employees.

Environmental Matters

Recent title insurance policies specifically exclude any liability for environmental risks or contamination. Older policies, while not specifically addressing environmental risks, are not considered to provide any coverage for such matters, and the Company does not expect any significant expenses related to environmental claims.



The Company, through its subsidiaries, sometimes acts as a temporary title holder to real estate under a nominee holding agreement and sometimes participates in title holding agreements involving tax-deferred exchanges. The Company's customers in such situations generally are financially strong entities from whom it secures indemnification for potential environmental and other claims. In other situations where the Company might acquire title to real estate, it will generally require that an appropriate environmental assessment be made to evaluate and avoid any potential liability.

Business Strategy

The Company is one of the largest title insurers in the United States. The Company's long term objective is to enhance its position as a premier, low cost national provider of integrated real estate transaction management services and to maximize its profitability throughout the real estate market cycle. To accomplish this objective, the Company is pursuing various business strategies designed to broaden its market position and provide the framework to enhance growth and maximize profitability.

Increasing Focus on Real Estate Transaction Management Services. Throughout the Company's customer base, there is an increased demand for centralized transaction management solutions. This trend is particularly evident in the case of national mortgage originators. These large national mortgage lenders increasingly expect that necessary services related to the mortgage financing process be available from and billed by a single source. Each lender also seeks a quick and efficient response to avoid the loss of business to a competitor. As a transaction manager offering the coordination and delivery of a broad range of real estate-related services, LandAmerica OneStop responds to this market need by providing national mortgage originators with a single, convenient point of contact through which they may place all of their orders for title insurance and real estate-related services. The Company believes that LandAmerica OneStop's transaction management services coupled with its technology-enhanced national distribution system enable it to increase the speed and efficiency of real estate transactions. The Company expects that LandAmerica OneStop will be increasingly important in the next few years in attracting and retaining the business of the large national mortgage lenders as well as other multi-state transaction originators.

Expanding Distribution Capabilities. The Company seeks to increase its share of the title insurance market by expanding and enhancing its distribution channels through the hiring and retention of experienced industry professionals with strong local relationships, the opening of new direct offices in markets with the potential for significant transaction volume, and selectively acquiring or engaging in joint ventures with title insurance companies and agencies in order to strengthen the Company's presence in particularly attractive markets. In the case of the acquisition of agencies or small to medium-size underwriters, the Company reviews the agency's or underwriter's profitability, location, growth potential in its existing market, claims experience and, in the case of an underwriter, the adequacy of its reserves.

Providing High Quality Service. High quality service, defined as the prompt and accurate production and delivery of products and services, is a critical competitive factor in developing successful long-term relationships with customers. Service quality is particularly important to the growing national lender customer base.

Maintaining Commercial Real Estate Market Strength. Participation in the commercial real estate market is attractive since the operating margins are generally better than those provided in residential real estate transactions. In addition, commercial business partially offsets some of the cyclicality of the residential real estate market, where transaction volumes are more susceptible to changes in interest rates. The Company maintains its presence in the commercial real estate market primarily due to the financial strength ratings of its underwriting subsidiaries, its strong capital position, the high quality service that it provides and its expertise in handling



complex transactions. In particular, the combined capital position of the Company's three principal underwriting subsidiaries enables it to underwrite large commercial policies while purchasing less reinsurance, thus increasing profitability.

Reducing Costs and Expenses. Through cost control, the Company achieves economies of scale in its core title insurance related operations as losses resulting from claims under title insurance policies represent a relatively small part of the Company's overall costs. The Company is implementing the following plans to further improve efficiency:

- Service Center Expansion. Operating costs, the largest portion of expenses relating to providing title insurance, are relatively high compared to other types of insurers. In twelve major markets, the Company has implemented the concept of Service Centers, in which its three principal operating subsidiaries share a single back office processing center in a geographic region while continuing to market from separate storefronts under different brand names. This concept has reduced the Company's cost per order in those markets. Service Centers are now in place in Chicago, Denver, Detroit, Ft. Lauderdale, Houston, Orlando, Philadelphia, Phoenix, Portland, San Francisco, Seattle and Tampa.

- Workflow Process Redesign. The Company is committed to the redesign of traditional workflow processes. In an effort to reduce expenses and improve service, the Company has several pilot projects underway to centralize escrow support and improve the workflow in Service Centers.

Using Technology. The Company has introduced an Internet portal that connects existing title production and closing systems to the Internet so customers can check the status of their orders and receive documents on-line. The new system allows the Company to receive orders electronically and to deliver the title report and closing statement as email attachments, thereby improving service to customers. The residential portal was installed as a pilot project in 2001 and is expected to be introduced throughout the Company's closing operations during 2002 and 2003. Benefits of the system include a reduction in staffing levels accompanied by an increase in the speed an order can be processed.

Enhancing Cost Control Flexibility. The Company manages its personnel expenses to reflect changes in the level of activity in the real estate market. As a result, the Company's employee base expands and contracts over time. In order to manage personnel costs more efficiently throughout the real estate cycle, the Company uses temporary or part time employees where appropriate to staff operations so the Company can respond promptly to changes in real estate activity.

ITEM 2. PROPERTIES

The Company owns an office building and adjacent real estate in Richmond, Virginia that it uses for its corporate headquarters. This property consists of approximately 128,000 square feet of office space and parking facilities. The Company's title insurance subsidiaries conduct their business operations primarily in leased office space. As of December 31, 2001, the Company had numerous leases for its branch offices and subsidiaries throughout the states in which it operates. In addition, it owns several other properties that in aggregate are not material to its business taken as a whole.

The Company's title plants constitute a principal asset. Such plants comprise copies of public records, maps, documents, previous reports and policies indexed to specific properties in an area. The plants are generally located at the office which serves a particular locality or in "service centers" serving multiple localities in major metropolitan areas. They enable title



personnel to examine title matters relating to a specific parcel of real property as reflected in the title plant, and eliminate or reduce the need for a separate search of the public records. They contain material dating back a number of years and are kept current on a daily or other frequent basis by the addition of copies of documents filed of record which affect real property. The Company maintains title plants covering many of the areas in which it operates, although certain offices utilize jointly owned and maintained plants. The Company capitalizes only the initial cost of title plants. The cost of maintaining such plants is charged to expense as incurred.

The title plants and title examination procedures have been automated and computerized to a large extent in many areas. To protect against casualty loss, the Company's offices maintain duplicate files and backups of all title plants.

On February 23, 1998, the Company entered into an Agreement Containing Consent Order (the "Consent Order") with the Federal Trade Commission (the "FTC") in connection with the acquisition of Commonwealth and Transnation. The Consent Order required, and the Company completed, the divestiture of certain title plants in 12 localities named in the Consent Order. Seven of such localities were in Florida, three were in Michigan, and one each was in Washington, D.C. and St. Louis, Missouri. Pursuant to the terms of the Consent Order, the Company may not acquire, without prior notice to the FTC, any interest in a title plant in any of the named localities for a period of 10 years following the date of the Consent Order.

The Company believes that its properties are maintained in good operating condition and are suitable and adequate for its purposes.

ITEM 3. LEGAL PROCEEDINGS

General

The Company and its subsidiaries are involved in certain litigation arising in the ordinary course of their businesses, some of which involve claims of substantial amounts. Although the ultimate outcome of these matters cannot be ascertained at this time, and the results of legal proceedings cannot be predicted with certainty, the Company believes, based on current knowledge, that the resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Litigation Not in the Ordinary Course of Business

The People of the State of California, the Controller of the State of California and the Insurance Commissioner of the State of California have filed a putative defendant class action suit in the Sacramento Superior Court against Fidelity National Title Insurance Company and others (Case No. 99AS02793) (the "Attorney General's Case"). While the subsidiaries of the Company that do business in California (the "Company's California Subsidiaries") were not named in the Attorney General's Case, they fall within the putative defendant class definition which includes virtually all title insurance underwriters, underwritten title companies, controlled escrow companies and independent escrow companies in California. The Attorney General's Case alleges that the defendants (i) failed to escheat unclaimed property to the Controller of the State of California on a timely basis, (ii) charged California home buyers and other escrow customers fees for services which were never performed, or which cost less than the amount charged, and (iii) devised and carried out schemes with financial institutions to receive interest, or monies in lieu of interest, on escrow funds deposited by defendants with financial institutions in demand deposits. The Attorney General's Case seeks injunctive relief, restitution and civil penalties. The Company has reached an agreement in principle to settle the claims made in the Attorney General's Case. The Company believes that if a final settlement materially consistent



with the terms of the agreement in principle is consummated, such settlement would not have a material adverse effect upon the Company's financial condition.

On or about June 16, 2000, Norman E. Taylor, Connie S. Taylor, Lynne Thompson Jones-Brittle, Colin R. Callaghan and Miriam J. Callaghan (collectively, the "Plaintiffs") filed a putative class action suit (the "Taylor Suit") in the Superior Court of Los Angeles, California (Case No. BC 231917) against the Company, Commonwealth Land Title Insurance Company, Commonwealth Land Title Company, Lawyers Title Insurance Corporation and Lawyers Title Company (collectively, the "Defendants"). The Plaintiffs purport to represent a class defined in the First Amended Complaint dated November 20, 2000 (the "Amended Complaint") as "[a]ll persons or entities who, from 1980 to the present, incident to purchase, sale or refinancing of real property located in California, deposited funds in escrow accounts controlled by the Defendants and were not paid interest on their funds and/or were charged fees for services not rendered by Defendants or excessive fees for the services Defendants performed." The Plaintiffs allege in the Amended Complaint that the Defendants unlawfully (a) received interest, other credits or payments that served as the functional equivalent of interest, on customer escrow funds; (b) charged and retained fees for preparing and recording reconveyances that they did not prepare or record, and charged and retained excessive fees for other escrow-related services; and (c) swept or converted funds in escrow accounts based upon contrived charges prior to the time the funds escheated or should have escheated to the State of California pursuant to the Unclaimed Property Law. The Plaintiffs assert claims for relief against the Defendants based on (i) violation of California's Unfair Business Practices Act, California Business and Professions Code Sections 17200, et. seq.; (ii) violation of California's Deceptive, False and Misleading Advertising Act, California Business and Professions Code Sections 17500, et. seq.; (iii) violation of California's Consumer Legal Remedies Act, California

Civil Code Sections 1750, *et. seq.*; (iv) breach of fiduciary duty; (v) breach of agents' duties to their principals; (vi) breach of undertaking of special duty; (vii) conversion; (viii) unjust enrichment; (ix) conspiracy; and (x) negligence. The Plaintiffs seek injunctive relief, restitution of improperly collected charges and interest and the imposition of an equitable constructive trust over such amounts, damages according to proof, punitive damages, costs and expenses, attorneys' fees, pre- and post-judgment interest and such other and further relief as the Court may deem necessary and proper. The Company intends to defend vigorously the Taylor Suit. The suit is still in its initial stages, and at this time no estimate of the amount or range of loss that could result from an unfavorable outcome can be made.

Commonwealth Land Title Company, a subsidiary of the Company, was served with a complaint in a putative class action suit filed on May 21, 2001 in the Superior Court of Los Angeles, California, Central District, styled Thomas Branick and Ardra Campbell v. First American Title, et al. (Case No. BC 250923). The complaint, which named "Commonwealth Title" and numerous other title companies and lenders as defendants, purported to allege causes of action for unfair competition (California Business and Professions Code Sections 17200, *et. seq.*) and unfair business practices (California Business and Professions Code Sections 1750, *et. seq.*). Although the complaint contained no specific allegations against "Commonwealth Title," it generally alleged that the named defendants improperly charged recordation and other fees. The complaint prayed for relief in the form of statutory penalties, restitution, injunctive relief, costs of suit and attorneys' fees. After the action was brought, amendments were filed naming Lawyers Title Company and Lawyers Title Insurance Corporation as defendants. Following a hearing on February 15, 2002, the court sustained defendants' demurrers dismissing the suit without leave to amend, based only on a misjoinder of parties. The plaintiffs could challenge this decision in the Superior Court or appeal it.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2001.

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## EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the persons who serve as executive officers of the registrant, their ages and positions as of March 18, 2002, and their business experience during the prior five years. There are no family relationships between any of such persons and any director, executive officer, or person nominated to become a director or executive officer.

| Name | Age | Office and Experience |
| --- | --- | --- |
| Charles H. Foster, Jr. | 59 | Chairman and Chief Executive Officer of the Com Foster also serves as Chairman and Chief Execut position he has held for more than five years. Mr. Foster has served as Chairman and Chief Exe and Transnation. |

| | | |
|---|---|---|
| Janet A. Alpert | 55 | President of the Company since January 1993. Ms of Lawyers Title, a position she has held for m since March 1, 1998, Ms. Alpert has served as P Transnation. Ms. Alpert also served as Chief Op and Lawyers Title from January 1993 to February |
| Theodore L. Chandler, Jr. | 49 | Senior Executive Vice President of the Company Chandler also serves as Senior Executive Vice P Commonwealth and Transnation, positions he has Chandler was a member of the law firm of Willia January 31, 2000, a position he held for more t |
| G. William Evans | 47 | Executive Vice President and Chief Financial Of September 15, 1999. Mr. Evans also serves as Ex Financial Officer of Lawyers Title, Commonwealt has held since September 15, 1999. Mr. Evans se - Information Technology of the Company from Fe 1999. He served as Vice President and Treasurer to February 1998. He also served as Senior Vice Officer and Treasurer of Lawyers Title from Oct |

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| Name | Age | Office and Experience |
|---|---|---|
| John M. Carter | 46 | Executive Vice President - Law and Employee Rel February 27, 1998. Mr. Carter also serves as Ex Employee Relations of Commonwealth, Lawyers Tit has held since March 1, 1998. He served as Assi from February 1995 to February 1998. He also se Law and Employee Relations of Lawyers Title fro |
| Karen L. Schmidt | 48 | Executive Vice President - Markets of the Compa Schmidt was the Executive Director of Marketing September 1997 until December 2000 and served a Quantra Corporation from September 1995 until S |
| Russell W. Jordan, III | 61 | Executive Vice President, General Counsel and S October 24, 2001. Mr. Jordan also serves as Exe Counsel of Lawyers Title, Commonwealth and Tran since October 24, 2001. Mr. Jordan served as Se Counsel and Secretary of the Company from March addition, Mr. Jordan served as Senior Vice Pres Commonwealth and Transnation from March 1, 1998 the same position for Lawyers Title for more th 2001. Mr. Jordan served as Secretary and Genera October 1991 to February 1998. |
| John R. Blanchard | 53 | Senior Vice President - Corporate Controller of 1998. Mr. Blanchard also serves as Senior Vice Controller of Commonwealth, Lawyers Title and T since March 1, 1998. He served as Controller of to February 1998. He also served as Senior Vice Lawyers Title from October 1991 to February 199 |

| | | |
|---|---|---|
| Christopher L. Rosati | 42 | Senior Vice President - Operations Controller o 1998. Mr. Rosati also serves as Senior Vice Pre of Commonwealth, Lawyers Title and Transnation, March 1, 1998. He served as Vice President and Transnation from March 1996 to February 1998. |



PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Price and Dividends

The Common Stock of the Company trades on the New York Stock Exchange ("NYSE") under the symbol "LFG."

The following table sets forth the reported high and low sales prices per share of the Common Stock on the NYSE Composite Tape, based on published financial sources, and the dividends per share declared on the Common Stock for the calendar quarter indicated.

| | Price Range | | |
|---|---|---|---|
| | High | Low | Dividends |
| Year Ended December 31, 2000 | | | |
| First quarter | $22.00 | $16.31 | $0.05 |
| Second quarter | 23.19 | 16.06 | 0.05 |
| Third quarter | 29.63 | 20.50 | 0.05 |
| Fourth quarter | 42.94 | 26.75 | 0.05 |
| Year Ended December 31, 2001 | | | |
| First quarter | $50.45 | $30.75 | $0.05 |
| Second quarter | 37.00 | 26.50 | 0.05 |
| Third quarter | 37.09 | 29.09 | 0.05 |
| Fourth quarter | 35.69 | 23.20 | 0.05 |

As of March 18, 2002, there were approximately 1,381 shareholders of record of the Company's Common Stock.

The Company's current dividend policy anticipates the payment of quarterly dividends in the future. The declaration and payment of dividends to holders of Common Stock will be in the discretion of the Board of Directors, will be subject to contractual restrictions contained in a Company loan agreement, as described below, and will be dependent upon the future earnings, financial condition and capital requirements of the Company and other factors.

Because the Company is a holding company, its ability to pay dividends will depend largely on the earnings of, and cash flow available from, its subsidiaries. In a number of states, certain of the Company's insurance subsidiaries are subject to regulations that require minimum amounts of statutory surplus. Under these and other such statutory regulations, approximately $59.7 million of the net assets of the Company's consolidated subsidiaries are available for dividends, loans or advances to the Company during 2002.

In addition to the minimum statutory surplus requirements described above, these insurance subsidiaries are also subject to state regulations that require that the payment of any extraordinary dividends receive prior approval of the insurance regulators of such states. The following table summarizes the insurance regulations that restrict the amount of dividends that Commonwealth, Lawyers Title and Transnation can distribute to the Company in any 12-month period without prior regulatory approval:



| Subsidiary | Regulatory Agency | Regulatory Limitation | Financial Limitation ( |
|---|---|---|---|
| Commonwealth | Pennsylvania Department of Insurance | Payment of dividends or distributions may not exceed the greater of:<br>. 10% of such insurer's surplus as of the preceding year end, or<br>. the net income of such insurer for such preceding year. | $30.6 millio |
| Lawyers Title | Virginia Bureau of Insurance | Payment of dividends or distributions is limited to the lesser of:<br>. 10% of such insurer's surplus as of the preceding December 31, or<br>. the net income, not including realized capital gains, of such insurer for the preceding calendar year. | $22.9 millio |
| Transnation | Arizona Department of Insurance | Payment of dividends or distributions is limited to the lesser of:<br>. 10% of such insurer's surplus as of the preceding December 31, or<br>. such insurer's net investment income for the preceding calendar year. | $6.2 million |

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(1) Based on statutory financial results for the year ended December 31, 2001.

In addition to regulatory restrictions, the Company's ability to declare dividends is subject to restrictions under a Revolving Credit Agreement, dated as of November 7, 1997, between the Company and Bank of America National Trust and Savings Association, as amended, which generally limits the aggregate amount of all cash dividends and stock repurchases by the Company to 25% of its cumulative consolidated net income arising after December 31, 1996. As of December 31, 2001, approximately $31.1 million was available for the payment of dividends by the Company under the Revolving Credit Agreement. Management does not believe that the restrictions contained in the Revolving Credit Agreement will, in the foreseeable future, adversely affect the Company's ability to pay cash dividends at the current dividend rate.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth in the following table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto.

| For the year ended December 31: | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| | (In thousands of dollars, except for common share amounts) | | | | |
| Revenues ........... | $2,170,477 | $1,802,405 | $2,048,013 | $1,848,870 | $639,099 |
| Net (loss) income... | 60,266(2) | (80,766)(1) | 54,317 | 93,028 | 26,157 |
| Net income per common share ....... | 3.42 | (6.60) | 3.21 | 6.13 | 2.93 |
| Net income per common share assuming dilution... | 3.24 | (6.60) | 2.79 | 5.05 | 2.84 |
| Dividends per common share ....... | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| At December 31: | | | | | |
| Total assets ....... | 1,707,481 | 1,618,957 | 1,657,921 | 1,692,358 | 554,693 |
| Shareholders' equity ............ | 727,493 | 644,100 | 730,703 | 771,189 | 292,404 |

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(1) The net loss reported by the Company for the fiscal year ended December 31, 2000 resulted from a change in the Company's method for assessing the recoverability of goodwill (not associated with impaired assets) during the fourth quarter of 2000 which resulted in net of tax charges of $110,369. See Note 2 to the Consolidated Financial Statements.

(2) In the fourth quarter of 2001, the Company reassessed the carrying value of intangibles and capitalized software which resulted in net of tax charges to earnings of $32,893. See Note 15 to the Consolidated Financial Statements.



ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Critical Accounting Policies and Estimates

This discussion and analysis of LandAmerica's financial condition and results of operations is based upon its consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Company's significant accounting policies are disclosed in Note 1 to the accompanying financial statements. The Company believes that the following are the most critical of its accounting policies:

- Revenue Recognition. Premiums on title insurance written by the Company's employees are recognized as revenue when the Company is legally or contractually entitled to collect the premium. Premiums on insurance written by agents are generally recognized when reported by the agent and recorded on a "gross" versus "net" basis. Title search and escrow fees are recorded as revenue when an order is closed.

- Policy and Contract Claims. A provision for estimated future claims payments is recorded at the time policy revenue is recorded. Payment experience for the Company and the industry extends for more than 20 years after the issuance of a policy. Due to the length of time over which claim payments are made and regularly occurring changes in underlying economic conditions, these estimates are subject to variability. Loss provision rates are reviewed periodically and adjusted by management as experience develops or new information becomes known. In establishing loss provision rates, management considers historical experience, current economic conditions and the mix of business. Independent actuaries review the adequacy of reserve levels on an interim basis and certify to their adequacy on an annual basis.

- Long-Lived Assets. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indicators of impairment are present, the Company estimates the future cash flows expected to be generated from the use of those assets and their eventual disposal. The Company would recognize an impairment loss if the future cash flows were less than the carrying amount.

- Deferred Tax Asset. The Company recorded net deferred tax assets at December 31, 2001 and 2000 related primarily to policy and contract claims, the write off of intangibles (See Note 2 to Consolidated Financial Statements) and employee benefit plans. Based upon the Company's historical results of operations, the existing financial condition of the Company and management's assessment of all other available evidence, management believes that the benefit of these assets will more likely than not be realized. A valuation allowance is provided for deferred tax assets if it is more likely than not that some portion or all of these items will expire before the Company is able to realize their benefit.

- Goodwill. During the fourth quarter of 2000 the Company changed its method for assessing the recoverability of goodwill not associated with impaired assets from an undiscounted cash flow approach to a discounted cash flow approach and wrote off a portion of its recorded goodwill (See Note 2 to Consolidated Financial Statements). Prior to July 1, 2001, goodwill was subject to periodic amortization on a straight-line basis over its estimated life. Subsequent to December 31, 2001, goodwill is no longer subject to amortization. For fiscal years beginning after December 15, 2001 the carrying amount of goodwill is subject to impairment tests prescribed by the Financial Accounting Standards Board ("FASB") Statements of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets.

Overview

The Company's primary business is the provision of real estate transaction services, including the insurance of titles to real property, which is greatly influenced by the real estate economy. During the three-year period from 1999 through 2001, the Company's title operations benefited from the execution of three distinct aspects of its business strategy. Operations were expanded through the acquisition of title insurance agents, expenses were tightly monitored and controlled and claims experience improved due to quality control efforts and an improved claims environment.

During 2000, the Company decided to place increased emphasis on other products and services related to real estate transactions. As a result, in October 2000, the Company acquired Primis, Inc., a web-based provider of real estate services. In 2001, the acceptance of Primis' technology by the Company's customer base proved to be much slower than anticipated, necessitating a fourth quarter non cash write off of intangibles, including goodwill, acquired in the acquisition.

Revenues

The Company's operating revenues, consisting of premiums, title search, escrow and other fees, are dependent on overall levels of real estate and mortgage refinance activity, which are influenced by a number of factors including interest rates and the general state of the economy. In addition, the Company's revenues are affected by the Company's sales and marketing efforts and its strategic decisions based on the rate structure and claims environment in particular markets.

Premiums and fees are determined both by competition and by state regulation. Revenues from direct title operations are recognized at the time real estate transactions close, which is generally 60 to 90 days after the opening of a title order. Operating revenues from agents are recognized when the issuance of a policy is reported to the Company by an agent. This typically results in delays averaging 90 days from the closing of real estate transactions until the recognition of revenues from agents. As a result, there can be a significant lag between changes in general real estate activity and their impact on the portion of the Company's revenues attributable to agents.

In addition to the premiums and related fees, the Company earns investment income from its investment portfolio of primarily fixed-maturity securities. Investment income includes dividends and interest as well as realized capital gains or losses on the portfolio. The Company regularly reexamines its portfolio strategies in light of changing earnings or tax situations.

Factors Affecting Profit Margins and Pre-Tax Profits

The Company's profit margins are affected by several factors, including the volume of real estate and mortgage refinance activity, policy amount and the nature of real estate transactions. Volume is an important determinant of profitability because the Company, like any other real estate services company, has a significant level of fixed costs arising from personnel, occupancy costs and maintenance of title plants. Because premiums are based on the face amount of the policy, larger policies generate higher premiums although expenses of issuance do not necessarily increase in proportion to policy size. Cancellations affect profitability because costs incurred both in opening and in processing orders typically are not offset by fees. Commercial transactions tend to be more profitable than residential transactions.



The Company's largest expense is commissions paid to independent agents. The Company regularly reviews the profitability of its agents, adjusting commission levels or canceling certain agents where profitability objectives are not being met and expanding operations where acceptable levels of profitability are available. The Company continually monitors its expense ratio, which is the sum of salaries and employee benefits, agency commissions and other expenses (exclusive of interest, goodwill, exit and termination costs and write off of intangibles) expressed as a percentage of operating revenues.

Claims

Generally, title insurance claim rates are lower than other types of insurance because title insurance policies insure against prior events affecting the quality of real estate titles, rather than against unforeseen, and therefore less predictable, future events. A provision is made for estimated future claim payments at the time revenue is recognized. Both the Company's experience and industry data indicate that claims activity occurs for more than 20 years after the policy is issued. Management considers historical claim payment patterns, current economic conditions and changes in the mix of business in setting its loss provision ratio. Independent actuaries review the adequacy of reserves on an interim basis and certify as to their adequacy on an annual basis. Management has continued to emphasize and strengthen claims prevention and product quality programs.

Seasonality

Historically, residential real estate activity has been generally slower in the winter, when fewer families buy or sell homes, with increased volumes in the spring and summer. Residential refinancing activity is generally more uniform throughout the seasons, but is subject to interest rate variability. The Company typically reports its lowest revenues in the first quarter, with revenues increasing into the second quarter and through the third quarter. The fourth quarter customarily may be as strong as the third quarter, depending on the level of activity in the commercial real estate market.

In the 1999 through 2001 period, the typical seasonality of the title insurance business was influenced by changes in the levels of refinancing activity. For additional information, see "Item 1 - Business - Cyclicality and Seasonality."

Contingencies

For a discussion of pending legal proceedings, see "Item 3 - Legal Proceedings."

Results of Operations

Comparison of Years Ended December 31, 2001,
December 31, 2000 and December 31, 1999

Net Income

The Company reported net income of $60.3 million or $3.24 per share on a diluted basis for 2001 compared to a net loss of $80.8 million or $6.60 per share on a diluted basis in 2000 and net income of $54.3 million or $2.79 per share on a diluted basis in 1999. The years 2001 and 2000 were affected by one-time write offs (discussed below) of intangibles and exit and termination costs. Exclusive of these items, net income was $94.2 million or $5.06 per diluted share in 2001 and $35.5 million or $1.94 per diluted share in 2000.



Operating Revenues

Operating revenues for 2001 were $2.1 billion compared to $1.8 billion in 2000 and $2.0 billion in 1999. The revenue increase in 2001 compared to 2000 was primarily the result of a drop in average annual mortgage interest rates from 8.1% to 7.0% which gave rise to a large volume of refinance transactions in 2001. Direct revenue increased 25.7% exclusive of the effect of the Primis acquisition while agency revenue increased 12.3% in 2001 compared to 2000. The smaller increase in agency revenue was the result of the industry's typical time lag in reporting business through independent agents. Orders opened in Company offices increased 57.0% from 680,000 in 2000 to 1,069,000 in 2001. Due to a higher interest rate environment during most of the year, the Company experienced lower revenue levels in 2000 than in 1999.

Investment Income

The Company reported pre-tax investment income of $51.0 million, $51.1 million and $48.0 million in 2001, 2000 and 1999, respectively. Excluding capital gains and losses, investment income was $50.8 million, $51.4 million and $49.6 million in 2001, 2000 and 1999, respectively. The Company's investment portfolio consists of primarily fixed maturity securities whose income includes dividends and interest as well as realized gains and losses.

Expenses

Operating Expenses. The Company's expense ratio was 90.5% in 2001 compared to 94.3% in 2000 and 92.2% in 1999. The expense ratio improved in 2001 compared to 2000 due to the fact that the Company was able to more efficiently utilize the level of fixed costs while closely controlling variable costs. This improvement was partially offset by weaker than expected results attributable to the Primis acquisition. The increase in the expense ratio in 2000 compared to 1999 was due to a significant decrease in revenue levels measured against costs that do not vary in direct proportion to revenue changes.

Exit and Termination Costs. Exit and termination costs on a pre-tax basis of approximately $1.7 million and $3.1 million were incurred in 2001 and 2000, respectively, in connection with the closing of seven Primis office locations in 2001 and, the Primis acquisition and the formation of a title plant management joint venture in 2000. No such costs were incurred in 1999.

Write Off of Intangibles. During the fourth quarter of 2001 the Company made a decision to scale back and write down prior investments in specific technology and appraisal business initiatives that resulted in two one-time charges. The first of these is a non-cash pre-tax charge of approximately $11.2 million resulting from the Company's decision to stop development of TitleQuest, its back office title production software. The second item is a one-time non-cash pre-tax charge of $40.2 million related to impairment of acquisition related intangibles that resulted from the Primis acquisition. The Primis acquisition experienced performance levels below forecast due to slower than anticipated acceptance of its technology by the Company's customer base.

In the fourth quarter of 2000, the Company elected to change its accounting policy for assessing the recoverability of goodwill from one based on undiscounted cash flows to one based on discounted cash flows. The Company believes that using the discounted cash flow approach to assess recoverability is a preferable policy as it is consistent with the methodology used by the Company to evaluate investment and acquisition decisions (See Note 2 to Consolidated Financial Statements). In connection with this change, the Company incurred a non-cash pre-tax charge of $172.5 million.

Salaries and Employee Benefits. Personnel-related expenses are a significant portion of total operating expenses in the title insurance industry. These expenses require intensive management through changing real estate cycles. As a percentage of gross revenues, salary and



related expenses were 30.2%, 29.4% and 28.1% in 2001, 2000 and 1999, respectively. These percentages, exclusive of the Primis acquisition, were 28.5% and 29.2% in 2001 and 2000, respectively. Staffing levels, excluding these attributable to the Primis acquisition, were 7,755, 8,905 and 8,500 at December 31, 2001, 2000 and 1999, respectively.

Agents' Commissions. Commissions paid to title insurance agents are the largest single expense incurred by the Company. The commission rate varies by geographic area in which the commission was earned. Commissions as a percentage of agency revenue were 78.9% in 2001, 78.3% in 2000 and 77.8% in 1999. The trend of increasing commission rates is attributable to increased competition for agents and an increase in commission rates promulgated by states.

General, Administrative and Other Expenses. The most significant components of other expenses are outside costs of title production, rent for office space, communications, travel and taxes levied by states on premiums.

Provision for Policy and Contract Claims. The Company's claims experience has shown improvement in recent years. The loss ratio (the provision for policy and contract claims as a percentage of operating revenues) was 4.0%, 4.4% and 4.9% in 2001, 2000 and 1999, respectively. Claims paid as a percentage of operating revenues were 3.7%, 4.3% and 3.2% in 2001, 2000 and 1999, respectively.

Income Taxes

The Company pays U.S. federal and state income taxes based on laws in the jurisdictions in which it operates. The effective tax rates reflected in the income statement for 2001, 2000 and 1999 differ from the U.S. federal statutory rate principally due to non-taxable interest, dividend deductions, travel and entertainment and company-owned life insurance.

At December 31, 2001 the Company had recorded gross deferred tax assets of $155.4 million related primarily to policy and contract claims, intangibles and employee benefit plans. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefit, or that future deductibility is uncertain.

The Company did not record a valuation allowance at December 31, 2001. At December 31, 2000 and 1999, the Company recorded a valuation allowance of $1.7 million and $11.5 million, respectively, related to deferred tax assets created by the unrealized losses associated with the Company's investment portfolio. A valuation allowance associated with unrealized losses is necessary because there is no assurance that the capital losses will be offset by capital gains during the statutory carryback and carryforward periods, and, therefore, would expire.

The Company reassesses the realization of deferred assets quarterly and, if necessary, adjusts its valuation allowance accordingly.

Pending Accounting Changes

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.



The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of $6.0 million ($0.32 per diluted share) per year.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Company expects to adopt SFAS 144 as of January 1, 2002 and it does not expect that the adoption of the Statement will have a significant impact on the Company's financial position and results of operations.

Liquidity and Capital Resources

Cash provided by operating activities for the years ended December 31, 2001, 2000 and 1999 was $140.5 million, $82.6 million and $97.6 million, respectively. As of December 31, 2001, the Company held cash and invested cash of $168.8 million and fixed-maturity securities of $874.3 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. The Company implemented this program in December 2001. Through February 2002, the Company had repurchased 52,400 shares.

In 1999, the Board of Directors approved plans to repurchase 2.0 million of the Company's issued and outstanding common shares. By December 31, 1999, the Company had repurchased 1.7 million of such shares at a cost of $43.4 million. The additional authorized repurchases of 0.3 million shares were completed in the first quarter of 2000 at a cost of $4.9 million. Repurchases were funded from available corporate funds.

During the first six months of 2001, 2.2 million shares of the Company's preferred stock were converted to 4.8 million shares of common stock. This conversion decreased the amount of preferred dividends paid by $7.7 million on an annual basis. The new common shares will require dividends of the same rate paid on all other outstanding common shares.

On August 31, 2001, the Company issued $150.0 million of senior notes through a private placement. The notes were divided into three series with $50.0 million due 2006 bearing interest at 7.16%, $50 million due 2008 bearing interest at 7.45% and $50 million due 2011 bearing interest at 7.88%. The proceeds of this private placement were used to repay outstanding debt under the Company's revolving credit facility.

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 $94.5 million available under a credit facility which was unused at December 31, 2001.



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-average interest rates by expected maturity dates. Actual cash flows could differ from the expected amounts.

Interest Rate Sensitivity
Principal Amount by Expected Maturity
Average Interest Rate
(dollars in thousands)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 and after | To |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Taxable available-for-sale securities: | | | | | | | |
| Book value | $25,010 | $39,925 | $27,577 | $49,969 | $38,506 | $314,990 | $495 |
| Average yield | 6.0% | 5.9% | 6.9% | 6.8% | 6.1% | 6.4% | |
| Non-taxable available-for-sale securities: | | | | | | | |
| Book value | 6,717 | 16,828 | 18,524 | 34,542 | 28,267 | 210,838 | 315 |
| Average yield | 4.5% | 5.0% | 4.7% | 4.3% | 4.5% | 4.9% | |
| Preferred stock: | | | | | | | |
| Book value | -- | -- | -- | -- | -- | 53,661 | 53 |
| Average yield | -- | -- | -- | -- | -- | 7.8% | |

The Company also has long-term debt of $208.6 million bearing interest at an average rate of 6.0% at December 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 Annual Report on Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Among other things, these statements relate to the financial condition, results of operation and business of the Company. In addition, the Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in other filings with the Securities and Exchange Commission and in its reports to shareholders. These forward-looking statements are generally identified by phrases such as "the Company expects," "the Company believes" or words of similar import. These forward-looking statements involve certain risks and uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Further, any such statement is specifically qualified in its entirety by the cautionary statements set forth in the following paragraph.

In connection with the title insurance industry in general, factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include



the following: (i) the costs of producing title evidence are relatively high, whereas premium revenues are subject to regulatory and competitive restraints; (ii) real estate activity levels have historically been cyclical and are influenced by such factors as interest rates and the condition of the overall economy; (iii) the value of the Company's investment portfolio is subject to fluctuation based on similar factors; (iv) the title insurance industry may be exposed to substantial claims by large classes of claimants and (v) the industry is regulated by state laws that require the maintenance of minimum levels of capital and surplus and that restrict the amount of dividends that may be paid by the Company's insurance subsidiaries without prior regulatory approval.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company

ITEM 7A. 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 7 of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this Item is submitted in a separate section of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in the Company's independent accountants and no disagreements on accounting and financial disclosure that are required to be reported hereunder.



PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except as to certain information regarding executive officers included in Part I, the definitive proxy statement for the 2002 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year is incorporated herein by reference for the information required by this item.

ITEM 11. EXECUTIVE COMPENSATION

Except for certain information set forth under the captions "Report of Executive Compensation Committee" and "Stock Performance Graph," the definitive proxy statement for the 2002 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year are incorporated herein by reference for the information required by this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The definitive proxy statement for the 2002 Annual meeting of Shareholders to be filed within 120 days after the end of the last fiscal year is incorporated herein by reference for the information required by this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The definitive proxy statement for the 2002 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year is incorporated herein by reference for the information required by this item.



PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1), (2) and (3). The response to this portion of Item 14 is submitted as a separate section of this report.

(b) Reports on Form 8-K

Form 8-K, dated December 17, 2001, reporting under Items 5 and 7 the approval of a stock repurchase program by the Board of Directors of the Company and containing management's comments on the Company's outlook for the fourth quarter of 2001 and fiscal year 2002.

(c) Exhibits - The response to this portion of Item 14 is submitted as a separate section of this report.

(d) Financial Statement Schedules - The response to this portion of Item 14 is submitted as a separate section of this report.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANDAMERICA FINANCIAL GROUP, INC.

By: /s/ Charles H. Foster, Jr.
Charles H. Foster, Jr.
Chairman and Chief Executive Officer

March 28, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Charles H. Foster, Jr.<br>Charles H. Foster, Jr. | Chairman and Chief Executive Officer and Director (Principal Executive Officer) | March 28, 2002 |
| /s/ Janet A. Alpert<br>Janet A. Alpert | President and Director | March 28, 2002 |
| /s/ Theodore L. Chandler, Jr.<br>Theodore L. Chandler, Jr. | Senior Executive Vice President and Director | March 28, 2002 |
| /s/ G. William Evans<br>G. William Evans | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | March 28, 2002 |
| /s/ John R. Blanchard<br>John R. Blanchard | Senior Vice President - Corporate Controller (Principal Accounting Officer) | March 28, 2002 |
| /s/ Michael Dinkins<br>Michael Dinkins | Director | March 28, 2002 |



| Signature | Title | Date |
|---|---|---|
| /s/ John P. McCann | Director | March 28, 2002 |

| | | |
|---|---|---|
| John P. McCann | | |
| /s/ Robert F. Norfleet, Jr.<br>Robert F. Norfleet, Jr. | Director | March 28, 2002 |
| /s/ Robert T. Skunda<br>Robert T. Skunda | Director | March 28, 2002 |
| /s/ Julious P. Smith, Jr.<br>Julious P. Smith, Jr. | Director | March 28, 2002 |
| /s/ Thomas G. Snead, Jr.<br>Thomas G. Snead, Jr. | Director | March 28, 2002 |
| /s/ Eugene P. Trani<br>Eugene P. Trani | Director | March 28, 2002 |
| /s/ Marshall B. Wishnack<br>Marshall B. Wishnack | Director | March 28, 2002 |



ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEMS 14 (a)(1), (2) AND (3), (c) AND (d)

INDEX OF FINANCIAL STATEMENTS AND

FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENT SCHEDULES

CERTAIN EXHIBITS

YEAR ENDED DECEMBER 31, 2001

LANDAMERICA FINANCIAL GROUP, INC.

RICHMOND, VIRGINIA

FORM 10-K ITEM 14 (a)(1), (2) AND (3)

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements of LandAmerica Financial Group, Inc. and subsidiaries are included in Item 8:



The following consolidated financial statement schedules of LandAmerica Financial Group, Inc. and subsidiaries are included in Item 14(d):



All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore, have been omitted.



## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
LandAmerica Financial Group, Inc.

We have audited the accompanying consolidated balance sheets of LandAmerica Financial Group, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LandAmerica Financial Group, Inc. and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 2 to the financial statements, in 2000 the Company changed its method for assessing the recoverability of goodwill.

/s/ ERNST & YOUNG LLP

Richmond, Virginia
February 20, 2002



LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, DECEMBER 31

(In thousands of dollars)

| ASSETS | 2001 | 2000 |
|---|---|---|
| INVESTMENTS (Note 3): | | |
| Fixed maturities available-for-sale - at fair value (amortized cost: 2001 - $865,354; 2000 - $800,504) | $ 874,270 | $ 796,842 |
| Equity securities - at fair value (cost: 2000 - $4,285) | -- | 3,235 |
| Mortgage loans (less allowance for doubtful accounts: 2001 - $176; 2000 - $139) | 1,536 | 9,652 |
| Invested cash | 133,185 | 80,976 |
| Total Investments | 1,008,991 | 890,705 |
| CASH | 35,585 | 42,375 |
| NOTES AND ACCOUNTS RECEIVABLE: | | |
| Notes (less allowance for doubtful accounts: 2001 - $5,278; 2000 - $2,230) | 8,773 | 11,011 |
| Accounts receivable (less allowance for doubtful accounts:2001 - $8,058; 2000 - $9,945) | 58,564 | 36,857 |
| Income tax recoverable | -- | 4,479 |

| | | |
|---|---|---|
| Total Notes and Accounts Receivable | 67,337 | 52,347 |
| PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2001 - $123,301; 2000 - $92,715) | 62,015 | 61,599 |
| TITLE PLANTS | 96,580 | 91,609 |
| GOODWILL (less accumulated amortization: 2001 - $37,588; 2000 - $32,072) | 190,702 | 217,425 |
| DEFERRED INCOME TAXES (Note 8) | 142,543 | 139,006 |
| OTHER ASSETS | 103,728 | 123,891 |
| Total Assets | $1,707,481 | $1,618,957 |

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, DECEMBER 31

(In thousands of dollars)

| LIABILITIES | 2001 | 2000 |
|---|---|---|
| POLICY AND CONTRACT CLAIMS (Note 4) | $ 561,438 | $ 556,798 |
| ACCOUNTS PAYABLE AND ACCRUED EXPENSES | 187,308 | 178,681 |
| FEDERAL INCOME TAXES | 3,653 | -- |
| NOTES PAYABLE (Note 12) | 208,595 | 202,379 |
| OTHER | 18,994 | 16,999 |
| Total Liabilities | 979,988 | 954,857 |
| COMMITMENTS AND CONTINGENCIES (Notes 11 and 13) | | |
| SHAREHOLDERS' EQUITY (Notes 6 and 7) | | |
| Preferred stock, no par value, authorized 5,000,000 shares, no shares of Series A Junior Participating Preferred Stock issued or outstanding; 2,200,000 shares of 7% Series B Cumulative Convertible Preferred Stock issued and outstanding in 2000 | -- | 175,700 |
| Common stock, no par value, 45,000,000 shares authorized, shares | | |

| | | |
|---|---|---|
| issued and outstanding: 2001 - 18,583,937; 2000 - 13,518,319 | 521,795 | 340,269 |
| Accumulated other comprehensive loss | (3,647) | (4,712) |
| Retained earnings | 209,345 | 152,843 |
| Total Shareholders' Equity | 727,493 | 664,100 |
| Total Liabilities and Shareholders' Equity | $1,707,481 | $1,618,957 |

See Notes to Consolidated Financial Statements.

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31

(In thousands of dollars except per common share amounts)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| REVENUES | | | |
| Title and other operating revenues: | | | |
| Direct operations | $1,010,715 | $ 764,133 | $ 853,989 |
| Agency operations | 1,108,759 | 987,137 | 1,146,025 |
| | 2,119,474 | 1,751,270 | 2,000,014 |
| Investment income (Note 3) | 50,789 | 51,406 | 49,578 |
| Gain (loss) on sales of investments | 214 | (271) | (1,579) |
| | 2,170,477 | 1,802,405 | 2,048,013 |
| EXPENSES (Notes 2, 4, 10, 11 and 12) | | | |
| Salaries and employee benefits | 640,149 | 515,329 | 561,744 |
| Agents' commissions | 874,757 | 772,939 | 891,928 |
| Provision for policy and contract claims | 83,819 | 76,889 | 97,014 |
| Exit and termination costs | 1,685 | 3,079 | -- |
| Write off of intangibles and capitalized software | 51,396 | 177,774 | -- |
| Interest expense | 12,766 | 13,614 | 12,068 |
| General, administrative and other | 411,740 | 370,918 | 400,389 |
| | 2,076,312 | 1,930,542 | 1,963,143 |
| INCOME (LOSS) BEFORE INCOME TAXES | 94,165 | (128,137) | 84,870 |
| INCOME TAX EXPENSE (BENEFIT) (Note 8) | | | |
| Current | 35,245 | 8,871 | 24,317 |
| Deferred | (1,346) | (56,242) | 6,236 |
| | 33,899 | (47,371) | 30,553 |

| | | | |
|---|---|---|---|
| NET INCOME (LOSS) | 60,266 | (80,766) | 54,317 |
| DIVIDENDS - PREFERRED STOCK | (145) | (7,700) | (7,700) |
| NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS | $ 60,121 | $ (88,466) | $ 46,617 |
| NET INCOME (LOSS) PER COMMON SHARE | $ 3.42 | $ (6.60) | $ 3.21 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 17,574 | 13,397 | 14,532 |
| NET INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION | $ 3.24 | $ (6.60) | $ 2.79 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION | 18,617 | 13,397 | 19,503 |

See Notes to Consolidated Financial Statements.

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LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

(In thousands of dollars)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | $ 60,266 | $ (80,766) | $ 54,3 |
| Depreciation and amortization | 34,640 | 35,818 | 35,4 |
| Amortization of bond premium | 2,942 | 1,992 | 1,7 |
| Write off of intangibles and capitalized software (Note 2) | 51,396 | 177,774 | |
| Realized investment (gains) losses | (214) | 271 | 1,5 |
| Deferred income tax | (1,346) | (56,242) | 6,2 |
| Change in assets and liabilities, net of businesses acquired: | | | |
| Notes receivable | 2,238 | 1,690 | (5,3 |
| Premiums receivable | (21,707) | (1,181) | 25,6 |
| Income taxes receivable/payable | 8,132 | (223) | (5,0 |
| Policy and contract claims | 4,640 | 2,348 | 32,5 |
| Accounts payable and accrued expenses | (6,125) | 13,816 | (31,0 |
| Other | 5,603 | (8,581) | (11,3 |
| Net cash provided by operating activities | 140,465 | 86,716 | 104,7 |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment, net | (35,439) | (14,117) | (62,7 |
| Proceeds from sale-leaseback of furniture and equipment | | | |

| | | | |
|---|---|---|---|
| (Note 10) | 10,000 | 5,996 | 24,9 |
| Purchase of business, net of cash acquired (Note 14) | (16,540) | (48,230) | (11,5 |
| Change in cash surrender value of life insurance | (1,975) | (4,096) | (7,1 |
| Cost of investments acquired: | | | |
| Fixed maturities - available-for-sale | (379,619) | (263,837) | (553,9 |
| Equity securities | -- | (1,008) | |
| Proceeds from investment sales or maturities: | | | |
| Fixed maturities - available-for-sale | 312,133 | 225,686 | 542,4 |
| Equity securities | -- | -- | 1 |
| Change in mortgage loans | 8,116 | (2,528) | 4,4 |
| Net cash used in investing activities | (103,324) | (102,134) | (63,3 |
| Cash flows from financing activities: | | | |
| Proceeds from the exercise of options | 5,923 | 3,037 | 2,7 |
| Cost of common shares repurchased | (97) | (4,906) | (43,4 |
| Dividends paid | (3,764) | (10,391) | (10,6 |
| Proceeds from issuance of notes payable | 160,322 | -- | |
| Payments on notes payable | (154,106) | (12,955) | (1 |
| Net cash provided by (used in) financing activities | 8,278 | (25,215) | (51,4 |
| Net increase (decrease) in cash and invested cash | 45,419 | (40,633) | (10,0 |
| Cash and invested cash at beginning of year | 123,351 | 163,984 | 174,0 |
| Cash and invested cash at end of year | $ 168,770 | $ 123,351 | $ 163,9 |

See Notes to Consolidated Financial Statements.



LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

(In thousands of dollars except per common share amounts)

| | Preferred Stock | | Common Stock | | C |
|---|---|---|---|---|---|
| | Shares | Amounts | Shares | Amounts | |
| Balance - December 31, 1998 | 2,200,000 | $ 175,700 | 15,294,572 | $382,828 | |
| Comprehensive income: | | | | | |
| Net income | -- | -- | -- | -- | |
| Other comprehensive income, net of tax $6,659 | | | | | |
| Net unrealized losses on securities (Note 6) | -- | -- | -- | -- | |
| Common stock retired | -- | -- | (1,712,700) | (43,402) | |

| | | | | |
|---|---|---|---|---|
| Stock options and incentive plans | -- | -- | 98,549 | 2,712 |
| Preferred dividends (7%) | -- | -- | -- | -- |
| Common dividends ($0.20/share) | -- | -- | -- | -- |
| Balance - December 31, 1999 | 2,200,000 | 175,700 | 13,680,421 | 342,138 |
| Comprehensive income: | | | | |
| Net loss | -- | -- | -- | -- |
| Other comprehensive income | | | | |
| Net unrealized gains | | | | |
| on securities (Note 6) | -- | -- | -- | -- |
| Common stock retired | -- | -- | (287,300) | (4,906) |
| Stock options and incentive plans | -- | -- | 125,198 | 3,037 |
| Preferred dividends (7%) | -- | -- | -- | -- |
| Common dividends ($0.20/share) | -- | -- | -- | -- |
| Balance - December 31, 2000 | 2,200,000 | 175,700 | 13,518,319 | 340,269 |
| Comprehensive income: | | | | |
| Net income | -- | -- | -- | -- |
| Other comprehensive income, net of | | | | |
| tax $(2,191) | | | | |
| Net unrealized gains | | | | |
| on securities | -- | -- | -- | -- |
| Minimum pension liability | | | | |
| adjustment (Note 10) | -- | -- | -- | -- |
| Common stock retired | -- | -- | (3,600) | (97) |
| Stock options and incentive plans | -- | -- | 244,659 | 5,923 |
| Preferred stock conversion | (2,200,000) | (175,700) | 4,824,559 | 175,700 |
| Preferred dividends (7%) | -- | -- | -- | -- |
| Common dividends ($0.20/share) | -- | -- | -- | -- |
| Balance - December 31, 2001 | -- | $ -- | 18,583,937 | $521,795 |

Total