

LANDAMERICA FINANCIAL GROUP INC
Form 10-K
February 28, 2007
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UNITED STATES
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, 2006

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
(State or other jurisdiction
of incorporation or organization)

5600 Cox Road

Glen Allen, Virginia
(Address of principal executive offices)

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

23060
(Zip Code)

(804) 267-8000

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(Registrant's telephone number, including area code)

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

Title of each class	Name of each 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 No

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 or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated Filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing sale price of the registrant's common stock as reported by the New York Stock Exchange on June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1,076.8 million.

The number of shares of the registrant's common stock outstanding on February 23, 2007 was 17,504,068.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be mailed to shareholders in connection with the 2007 Annual Meeting of Shareholders (to be filed) are incorporated by reference into Part III of this report.

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LANDAMERICA FINANCIAL GROUP, INC.

PART I

Forward-Looking and Cautionary Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Among other things, these statements relate to our financial condition, results of operations and future business plans, operations, opportunities and prospects. In addition, we and our 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 our reports to shareholders. These forward-looking statements are generally identified by the use of words such as we expect, believe, anticipate, could, should, may, plan, will, predict, estimate and similar expressions or words of similar import. These forward-looking statements upon our current knowledge and assumptions about future events and involve risks and uncertainties that could cause our actual results, performance or achievements to be materially different from any anticipated results, prospects, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include: (i) the Company's results of operations and financial condition are susceptible to changes in mortgage interest rates and general economic conditions; (ii) changes to the participants in the secondary mortgage market could affect the demand for title insurance products; (iii) the Company is subject to government regulation; (iv) heightened regulatory scrutiny of the Company and the title insurance industry, including pricing of title insurance products and services, could materially and adversely affect its business, operating results, and financial condition; (v) the Company may not be able to fuel its growth through acquisitions; (vi) the Company's inability to integrate and manage successfully its acquired businesses could adversely affect its business, operating results, and financial condition; (vii) regulatory non-compliance, fraud or defalcations by the Company's title insurance agents or employees could adversely affect its business, operating results, and financial condition; (viii) competition in the Company's industry affects its revenue; (ix) significant industry changes and new product and service introductions require timely and cost-effective responses; (x) the Company's litigation risks include substantial claims by large classes of claimants; (xi) key accounting and essential product delivery systems are concentrated in a few locations; (xii) provisions of the Company's articles of incorporation and bylaws, its shareholder rights plan and applicable state corporation and insurance laws could limit another party's ability to acquire the Company and could deprive shareholders of the opportunity to obtain a takeover premium for shares of common stock owned by them; (xiii) the Company's future success depends on its ability to continue to attract and retain qualified employees; (xiv) the Company's conduct of business in foreign markets creates financial and operational risks and uncertainties that may materially and adversely affect its business, operating results, and financial condition; and (xv) the Company's claims experience may require it to increase its provision for title losses or to record additional reserves, either of which may adversely affect its earnings. For a description of factors that may cause actual results to differ materially from such forward-looking statements, see Part I, Item 1A, Risk Factors on page 18 of this report. We caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made. We undertake no obligation to update any forward-looking statements made in this report.

ITEM 1. BUSINESS

General Information

Unless the context otherwise requires, the terms LandAmerica, the Company, we, us or our refers to LandAmerica Financial Group, Inc. and its consolidated subsidiaries on a combined basis.

LandAmerica was incorporated under the laws of the Commonwealth of Virginia on June 24, 1991. We are a holding company and operate through our subsidiaries. Our principal executive offices are located at 5600 Cox Road, Glen Allen, Virginia 23060 and our telephone number is (804) 267-8000. We maintain an internet website at www.landam.com.

Our shareholders and the public may access our periodic and current reports (including annual, quarterly and current reports on Form 10-K, Form 10-Q and Form 8-K, respectively, and any amendments to those reports)

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filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the Investor Information section of our website. The reports are made available on this website as soon as practicable following the filing of the reports with the SEC. The information is free of charge and may be reviewed, downloaded and printed from the website at any time.

In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers and the charters of the Audit Committee, Corporate Governance Committee and the Executive Compensation Committee are available to shareholders and the public through the Investor Information section of our website. Printed copies of the documents are available to any shareholder upon written request to our Secretary at the address set forth above. In accordance with New York Stock Exchange (NYSE) Rules, on June 15, 2006, we filed the annual certification by our Chief Executive Officer certifying that he was unaware of any violation by us of the NYSE s corporate governance listing standards at the time of the certification.

Overview of the Business

Our products and services facilitate the purchase, sale, transfer, and financing of residential and commercial real estate. We provide these products and services to a broad-based customer group including: residential and commercial property buyers and sellers, real estate agents and brokers, developers, attorneys, mortgage brokers and lenders, and title insurance agents. We have organized these customers, and consequently our business, into four customer groups, which include residential services, commercial services, lender services, and agency services. We operate through more than 1,000 offices and a network of 10,000 active and independent agents, and we also conduct business in Mexico, Canada, the Caribbean, Latin America, Europe, and Asia. Based on title premium revenue, we are one of the largest title insurance underwriters in the United States.

In addition to our core title insurance business, we provide a comprehensive suite of other products and services for residential and commercial real estate transactions, including title search, examination, escrow, and closing. We also offer appraisals, home inspections, and warranties for residential real estate transactions. For commercial real estate transactions, we provide property appraisal and valuation, building and site assessments and other due diligence services, survey coordination, construction disbursement, coordination of national multi-state transactions, tax-deferred real property exchanges pursuant to Section 1031 of the Internal Revenue Code, and Uniform Commercial Code products insuring personal property. We provide specialized services primarily to our national and regional mortgage lending customers, such as real estate tax processing, flood zone certifications, consumer mortgage credit reporting, default management services, and mortgage loan subservicing. In addition, we offer to our national and regional mortgage lending customers a full range of centralized and integrated residential real estate services through our subsidiary, LandAmerica OneStop, Inc. (LandAmerica OneStop). We support our network of approximately 10,000 agents with our AgentXtra[®] program, a suite of products designed to assist them with business solutions, customer service, and growth opportunities.

Recent Developments

On September 8, 2006, we completed the merger with Capital Title Group, Inc. (Capital Title), which consists of a title insurance underwriter, several title and escrow agency operations, a property appraisal company, a settlement services provider and other related companies. Capital Title services customers primarily in Arizona, California, and Nevada in addition to providing lender services on a national basis. Under the terms of the merger, we acquired 100 percent of Capital Title s common stock at a cost of \$252.6 million. We believe that the merger with Capital Title will strengthen our presence in key western states and add scale to the services we provide to our mortgage lending customers.

Operating Segments

Our principal business operations are organized under three primary operating segments: Title Operations, Lender Services, and Financial Services. Other operating business segments not required to be reported separately are reported in a category called Corporate and Other. Information regarding each of these operating segments is set forth below. Based on changes in the organizational structure and combination of service offerings in the Lender Services segment, we have reclassified our LandAmerica OneStop operations from the Title Operations segment to the Lender Services segment. Amounts from 2004 and 2005 have been reclassified to conform to the 2006 presentation.

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Certain financial information regarding our operating segments is presented in Note 18 in our financial statements under Part II, Item 8, Financial Statements and Supplementary Data and in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Title Operations

Products and Services

Title Insurance Title insurance policies are insured statements of the condition of title to real property. These 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 also insures the validity and priority of the lien of the insured mortgage 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. Title insurers incur considerable operating costs related to the personnel required to process forms, search titles, collect information on specific properties, and prepare title insurance commitments and policies.

We issue title insurance policies primarily through three principal title underwriting subsidiaries: Commonwealth Land Title Insurance Company (Commonwealth), Lawyers Title Insurance Corporation (Lawyers Title), and Transnation Title Insurance Company (Transnation). During 2006, we acquired an insurance underwriter, United Capital Title Insurance Company, which is a subsidiary of Capital Title. We also own three other title insurance underwriters: Commonwealth Land Title Insurance Company of New Jersey, Land Title Insurance Company, and Title Insurance Company of America. Effective December 31, 2005, we merged one of our title insurance underwriters, Transnation Title Insurance Company of New York, into Commonwealth. The collective operations of these subsidiaries cover the entire United States (with the exception of Iowa, which does not recognize title insurance), and certain territories of the United States and Canada. In addition, we offer customers international title policy services in Mexico, the Caribbean, Latin America, Europe, and Asia.

Escrow and Closing Services In addition to the issuance of title insurance policies, we provide escrow and closing services to a broad-based customer group that includes lenders, developers, real estate agents, attorneys, and property buyers and sellers. In California and a number of other western states, it is a general practice, incidental 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 escrow and closing services are generally separate and distinct from premiums paid for title insurance policies and other real estate-related services.

Commercial Services Our Commercial Services business assists customers in handling the more complex nature of commercial transactions and facilitates the coordination and delivery of products and services. In addition to title insurance, escrow, and closing services, we provide a range of specialized services that include zoning certification, construction disbursement, coordination of national multi-state transactions, tax-deferred real property exchanges pursuant to Section 1031 of the Internal Revenue Code, and Uniform Commercial Code products insuring personal property. The combined capital position of our three principal title underwriting subsidiaries enables us to underwrite large commercial policies and to participate in multi-state transactions.

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Operations

We issue title insurance policies through branch offices of our title insurance underwriters, wholly-owned or partially-owned but consolidated subsidiary agencies, or through partially owned or independent title insurance agents. Where the policy is issued through a branch or wholly-owned subsidiary agency operation, the search is performed by us or at our direction, and the premiums collected are retained by us. Where the policy is issued through a title insurance agent, whether or not partially-owned by us, the agent generally performs the search (in some areas searches are performed by attorneys and in some instances agents purchase components of the search from third party companies), examines the title, collects the premium, and retains a majority of the premium. The agent remits to us the remainder of the premium as compensation, part of which is 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. We are obligated to pay title claims in accordance with the terms of our policies, regardless of whether we issue policies through direct operations or agents. We maintain a quality assurance program for our independent agents. See *Insured Risk on Policies in Force*.

The premium for title insurance is due in full when the real estate transaction is closed. We recognize title insurance premium revenue from direct operations upon the closing of the transaction, whereas we recognize premium revenue from agency operations upon the reporting of such premiums by the agent. Premiums from agents are typically remitted to us after the closing of the real estate transaction, with the average time between closing and reporting being approximately 110 days for 2006.

Underwriting

We issue title insurance policies on the basis of a title report, prepared pursuant to our prescribed underwriting guidelines, generally 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. 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, and obtain prior approval of, a designated supervising office. Our contracts with independent agents require that the agent seek our prior approval before we assume a risk over a stated dollar limit.

We own a number of title plants and in some areas lease or participate 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. To maintain the value of the title plants, we continually update our records by regularly adding current information from the public records and other sources. In this way, we maintain 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. In many of the larger markets, the title plant and search procedures have been automated. We anticipate that the use of electronic media at courthouses and state and local governments will continue to grow over the next several years which may reduce the value of our title plants in the future.

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 liability of a title underwriter on outstanding policies cannot be precisely ascertained.

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In the ordinary course of business, our underwriting subsidiaries represent and defend the interests of their insureds, and our consolidated financial statements provide for estimated losses and loss adjustment expenses arising from claims. Title insurers are sometimes subject to unusual claims (such as claims of Indian tribes to land formerly inhabited by them), claims resulting from fraud and defalcation, claims from large classes of claimants, and other claims arising outside the insurance contract, including but not limited to, alleged negligence in search, examination or closing, alleged improper claims handling, alleged bad faith, alleged collection of excess premiums from certain consumers alleged to be entitled to a re-issue rate, and alleged improper charges for recording and other fees. The damages alleged in such claims arising outside the insurance contract may exceed the stated liability limits of the policies involved.

Standard & Poor ® (S&P), a division of The McGraw-Hill Companies, Inc., has assigned a financial strength rating of A- to our title insurance operations. 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, our ratings outlook is stable. Fitch, Inc. (Fitch) has assigned an A- rating to our financial strength. 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, our ratings outlook 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. Additionally, both Fitch and S&P have assigned senior debt ratings to our convertible debentures due in 2033 and 2034. Our convertible debentures have been assigned ratings of BBB-. We believe that we are strongly capitalized with an aggregate statutory equity of \$226.7 million as of December 31, 2006.

We place a high priority on maintaining effective quality assurance and claims administration programs. Our quality assurance program focuses on quality control, claims prevention and product risk assessment for our independent agencies. The claims administration program focuses on improving liability analysis, prompt, fair and effective handling of claims, early 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, we established due diligence requirements in connection with the appointment of new agents, procedures for renewing existing agents, and an Agency Audit Program. We continue to refine our systems for maintaining effective quality assurance and claims administration programs.

Facultative Reinsurance and Coinsurance

Our title insurance subsidiaries distribute large title insurance risks by entering into facultative reinsurance agreements with other insurance companies (the reinsurer). In facultative reinsurance agreements, the reinsurer assumes a portion of the risk that the primary insurance company (the ceding company or ceder) decides not to retain in consideration of a premium. The ceder, however, remains liable to the insured under the policy for the total risk, whether or not the reinsurer meets its obligation. Reinsurance agreements may be entered into with related insurance companies and/or with unaffiliated insurance companies. When facultative reinsurance agreements are entered into, a primary risk generally in the amount of 5 percent of the total risk with a \$5.0 million minimum and a \$20 million maximum is retained by the ceder. We enter into reinsurance arrangements both as the reinsurer and the ceder.

We generally purchase facultative reinsurance from unaffiliated reinsurers based upon our review of the underwriting risks, the retention laws of the state where the property is located and the state where the ceding company is domiciled, and the retention limitations imposed by the customer.

We occasionally utilize coinsurance to enable us to provide coverage in amounts greater than we would be willing or able to undertake individually. In coinsurance transactions, generally, each individual underwriting company issues a separate policy and assumes a portion of the overall total risk from the first dollar. Each coinsurer is liable only for the particular portion of the risk it assumes.

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Our title insurance subsidiaries enter into facultative reinsurance and coinsurance arrangements with most of the larger participants in the title insurance market, and such arrangements are not concentrated with any single title insurance company. Revenue and claims from facultative reinsurance are not material to our business as a whole. The exposure on assumed reinsurance risks is reduced due to the ceding company's retention of a significant primary risk. In addition, the exposure under these agreements generally ceases upon a transfer of the property and, with respect to insured loans, is decreased by reductions in mortgage loan balances. For these reasons, the actual exposure is much less than the total reinsurance our title insurance subsidiaries have assumed. Loss reserves on assumed reinsurance business are maintained on a basis consistent with reserves for direct business.

We maintain excess of loss catastrophic insurance through Lloyd's of London totaling \$50.0 million. The Lloyd's of London policy provides fidelity and title loss coverage up to \$50.0 million with a \$20.0 million deductible for title losses and a lesser deductible for other losses.

We have not paid as reinsurer or recovered as ceder any material reinsured losses under a facultative reinsurance agreement during the three year period ended December 31, 2006.

Title Operations Revenue

The table below sets forth, for the years ended December 31, 2006, 2005 and 2004, the approximate title operating revenue and percentages of our total title revenue for the five states representing the largest percentages of such revenue and for all other states and countries combined:

Revenue by State

(Dollars in millions)

	2006		2005		2004	
California	\$ 504.2	14.4%	\$ 661.1	19.0%	\$ 517.3	16.3%
Texas	388.3	11.1	353.1	10.1	362.4	11.4
Florida	377.7	10.7	368.1	10.6	275.6	8.7
New York	269.7	7.7	256.5	7.4	213.8	6.7
Arizona	214.8	6.1	196.0	5.6	130.1	4.1
Other	1,755.5	50.0	1,647.3	47.3	1,674.3	52.8
Total Title Revenue	\$ 3,510.2	100.0%	\$ 3,482.1	100.0%	\$ 3,173.5	100.0%

Title operating revenues represented 90.3 percent, 90.3 percent and 92.4 percent of our total consolidated operating revenues for the years ended December 31, 2006, 2005 and 2004, respectively.

Sales and Marketing

For sales and marketing purposes, we have organized our business into four customer groups: residential services, commercial services, lender services, and agency services. In each of these groups, we continue our transition from title insurance product delivery to being a single source provider of the multiple products and services involved in real estate transactions.

Residential Services Residential transaction services business results from the construction, sale, resale, and refinancing of residential properties. Most of our residential business comes from local attorneys, real estate brokers and developers, financial institutions, mortgage brokers, and independent escrow agents. Therefore, our marketing strategy for the residential business focuses on maintenance and expansion of these local business sources. In 2006, we continued to focus on customer service, including supporting our Superior Service Guarantee that provides for the refund of the escrow or closing fee when a residential customer is not satisfied with our service. In 2006, we introduced Landamclosing.com, a web-based site for opening and closing orders and the management of

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documents by our residential customers. We also developed a new website, KnowYourClosing.com, a consumer education resource that gives consumers answers to commonly asked questions regarding their closings and tells them where to turn for reliable information. Although we serve the residential market through two major distribution channels: direct company owned offices and title insurance agents, we only include our owned offices in the residential services group.

Commercial Services Commercial real estate business results from the construction, sale, resale and refinancing of properties with a business or commercial use. Our commercial services group specializes in coordinating, underwriting and closing complex commercial and multi-property transactions. Our financial strength is an important factor in marketing our commercial title business capabilities because it enables us to write larger title policies and retain higher levels of risk without purchasing reinsurance from a third party. We have aligned our local commercial offices with our national commercial offices as part of the implementation of our customer focused strategy initiated in 2004. Each office provides transaction and support services to national and local commercial accounts. The transaction and support services benefit both our owned offices as well as independent agents who handle substantial commercial transactions, although we consider business from such independent agents to be part of the agency services business. Commercial services business supports LandAmerica Commercial Connection, a web-based site for opening and closing orders, and the management of documents by our commercial customers. As of December 31, 2006, we have personnel providing commercial transaction expertise in 67 offices in 40 geographic markets including four offices outside of the United States located in Canada, Mexico, Germany, and Switzerland.

Agency Services We consider our network of approximately 10,000 agents, whom we refer to as our Agent Partners to be one of our four main customer groups. We offer a suite of services called AgentXtra® to provide our Agent Partners with solutions for their businesses, to improve their relationships with their customers, and to grow their businesses.

Lender Services While many of our residential services and commercial services offices provide service to local mortgage lenders, we also provide a variety of centralized, nationally coordinated services to lenders and mortgage servicers. In 2006, we continued to support LenderXtrasm, a flexible approach to product bundling that allows national lenders to create customized service packages that include LenderXtraOrder®, our online platform that allows real-time, instant price quotes and order conversion for bundled lender services.

Customers

As of December 31, 2006, no single agent was responsible for more than 5 percent of our title insurance revenue. In addition, our title insurance business is not dependent upon any single customer. The loss of any independent agent or customer would not have a material adverse effect on our business, operating results and financial condition.

Competition

The business of providing real estate transaction services is very competitive. We compete for residential title insurance business primarily on the quality of service in those states that regulate rates that we can charge for our services, and on price and service in other states that do not regulate rates. Quality of service is based upon a number of factors, including the ability to respond quickly and accurately to customers, and technological capabilities (resulting in the delivery of a readily accessible, efficient, and reliable product). Competition for commercial title business is based primarily on service, expertise in complex transactions, the size and financial strength of the insurer, and price, to the extent permitted by rate regulations. Title insurance underwriters also compete for agents on the basis of service and commission levels. For each of our customer groups, we have increased our emphasis on service levels and the variety of services and products we provide.

Our principal competitors are other major title insurance underwriters and their agency networks. During 2006, our principal competitors were Fidelity National Financial, Inc. (formerly Fidelity National Title Group, Inc.), The First American Corporation, Stewart Information Services, Inc., and Old Republic International Corporation. While there are approximately 88 title insurance underwriting companies licensed in the United States that generate 99 percent of the industry's underwriting market, the top five companies (consisting of us and our four principal competitors and their consolidated subsidiaries) accounted for approximately 92 percent of the title insurance underwriting market in 2005, the latest date for which information is available, based on public filings made by those companies.

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Our title insurance subsidiaries are subject to regulation by the insurance authorities and enforcement of laws by other governmental authorities of the states in which they do business. Our title insurance subsidiaries are subject to compliance with the Real Estate Settlement Procedures Act (RESPA) on one to four family residential transactions which is primarily enforced by the U.S. Department of Housing and Urban Development. See Regulation. Within this regulatory framework, we compete 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. We have underwriting limits that are comparable to our four principal competitors. While such limits may theoretically hinder our title insurance subsidiaries' assumption of a particularly large underwriting liability, in practice we have generally established our own internal risk limits at levels substantially lower than those allowed by state law. In addition, we may spread the risk of a large underwriting liability over our three principal title underwriting subsidiaries. Therefore, we do not consider statutory capital-based risk limits to be a significant factor in the amount of underwriting we may undertake.

Business Strategy

Our long-term objective is to improve our position as a premier provider and manager of integrated real estate transaction services while maximizing our profitability throughout the real estate market cycle.

Focusing on the Customer We employ a customer-focused strategy to strengthen our relationships with our customers. In conjunction with this strategy, we have leadership positions and teams to support our primary customer groups: agency services, lender services, residential services and commercial services. With the objective of fostering customer loyalty, these leaders and teams are responsible for consistent service quality and operational excellence by providing common support platforms and structures for the various markets in which we operate. Our shared support resources are organized to provide direct support to our customer-focused operations. Production and Process Improvement is a shared resource providing title production services to our teams that support our primary customer groups. Technology Resources focuses on providing superior customer service and increasing our operational efficiency through electronic business solutions and technology support. Our other shared resources, such as Human Resources and Legal, provide direct support to our internal customers through dedicated business partners.

Expanding Title Insurance Distribution Capabilities and Broadening Real Estate Transaction Services Offerings We seek to increase our share of the title insurance market by expanding and enhancing our distribution channels through the hiring and retention of experienced industry professionals with strong local relationships, the opening of new offices in markets with the potential for significant transaction volume, acquisitions of title insurance agencies or underwriters, and selectively engaging in title insurance agency joint ventures in order to strengthen our presence in particularly attractive markets. In the case of the acquisition of agencies or small to medium-size underwriters, we review 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. In 2006, we merged with Capital Title, a publicly-held title insurance company and acquired Napa Land Title, a California underwritten title company. Other acquisitions included a title insurance agency, five home inspection companies, a settlement services company, a flood certification services company, and a home warranty business. Throughout our title customer base, there is demand for providers of multiple, diverse real estate transaction services. Our strategy is to continue to expand our array of real estate transaction products and services available to title customers as well as our distribution channels.

Maintaining Commercial Real Estate Market Strength Participation in the commercial real estate market partially offsets some of the cyclicity of the residential real estate market, where transaction volumes are more susceptible to changes in interest rates. We maintain our presence in the commercial real estate market primarily due to the high quality service that we provide and our expertise in handling complex transactions, the financial strength ratings of our underwriting subsidiaries, and our strong capital position. In particular, the combined capital position of our three principal underwriting subsidiaries enables us to underwrite large commercial policies while purchasing less facultative reinsurance, thus increasing profitability.

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Reducing Costs and Expenses Losses resulting from claims under title insurance policies represent a relatively small part of our overall costs. Operating costs constitute the largest portion of expenses relating to providing title insurance and are relatively high compared to other types of insurers. We utilize a production unit model in which our three principal title operating subsidiaries share a single back office processing center in a geographic region while continuing to market from separate storefronts under different operating names. In 2006, we introduced our Project Fusion initiative to reduce over 300 technology applications to 50 or less applications over the next two years. Our production division is responsible for the delivery of title products to our direct company-owned offices and title insurance agents. We provide escrow support from several centralized locations, thereby increasing service levels and improving efficiency. We have also implemented out-sourcing and off-shoring initiatives to streamline operations in areas where it has been determined that these initiatives will be cost efficient, improve customer service, and provide value to our shareholders.

Enhancing Cost Control Flexibility We manage our personnel and other operational expenses to reflect changes in the level of activity in the real estate market. As a result, our employee base expands and contracts over time in response to changes in the real estate market and acquisitions we have made. However, personnel and administrative costs in the Title Operations segment do not decrease as rapidly as transaction volumes decrease due to our inability to change headcount in direct correlation to volume changes. In an effort to manage personnel costs more efficiently throughout the real estate cycle, we use temporary or part time employees where appropriate to staff operations so we can respond more rapidly to changes in real estate activity.

Regulation

The title insurance business is regulated by state regulatory authorities that possess broad powers relating to the granting and revoking of licenses, and the type and amount of investments which our 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 financial and other records and the market conduct of these companies. These and other governmental authorities have the power to enforce state and federal laws to which our title insurance subsidiaries are subject, including but not limited to, state anti-rebate and anti-kickback statutes and RESPA. Some states require title insurers to own or lease title plants. A substantial portion of the assets of our title insurer 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. Various state statutes require title insurers to defer a portion of all premiums in a reserve for the protection of policyholders and to segregate investments in a corresponding amount. State regulatory policies also require prior notice to regulators in the event of a dividend or a distribution, and restrict the amount of dividends and distributions that title insurance companies may pay to their shareholders without prior regulatory approval. Generally, all of the title insurers 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 (NAIC) has adopted model legislation that, if enacted by individual states, would regulate title insurers and agents nationally and would change certain statutory reporting requirements. The model 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. We cannot predict whether all or any portion of the proposed legislation or any other legislation further regulating title insurers and agents will be adopted in any other states or federally. Also, the NAIC has adopted an instruction requiring an annual certification of reserve adequacy by a qualified actuary. Each title insurance subsidiary, unless it qualifies for an exemption, must file an actuarial opinion with respect to the adequacy of its reserves in most states in which they operate.

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 that is domiciled (or, in some

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cases, merely admitted to do business) in that state. Under such current laws, any future transaction that would constitute a change in control would generally require approval by the state insurance departments of California, Nebraska, New Jersey, Tennessee and Texas. Such a requirement could have the effect of delaying or preventing certain transactions affecting the control or the ownership of our common stock, including transactions that could be advantageous to our shareholders.

Cyclical 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 changes in interest rates. Periods of increasing interest rates usually have an adverse impact on residential real estate activity and therefore decrease our title insurance premiums and fee revenue. In contrast, periods of declining interest rates usually have a positive impact on residential real estate activity which increase our title insurance premiums and fee revenue.

Commercial real estate volumes are less sensitive to changes in interest rates, but fluctuate based on local supply and demand conditions for space.

The title insurance business tends to be seasonal as well as cyclical. Residential buy/sell activity is 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. We typically report our lowest revenue in the first quarter, with revenue 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 of residential refinancing and of commercial real estate transactions.

Environmental Matters

Title insurance policies specifically exclude any liability for environmental risks or contamination. Policies issued before 1984, while not specifically addressing environmental risks, are not considered to provide any coverage for such matters, and we have not experienced and do not expect any significant expenses related to environmental claims.

Through our subsidiaries, we sometimes act as a temporary title holder to real estate under a nominee holding agreement and sometimes participate in title holding agreements involving tax-deferred exchanges. Our customers in such situations generally are financially strong entities from whom we secure indemnification for potential environmental and other claims. In other situations where we might acquire title to real estate, we will generally require that an appropriate environmental assessment be made to evaluate and avoid any potential liability.

Lender Services

Products and Services

The Lender Services segment focuses on mortgage lenders as a distinct customer base for certain of our products and services, which include centralized real estate transaction management services, real estate tax processing services, flood zone determinations, consumer mortgage credit reporting, default management services, and mortgage loan subservicing. Management is organized to focus on the three lines of business provided to our national and regional lender customers: mortgage origination, loan servicing, and loan subservicing.

Our mortgage origination business provides centralized real estate transaction management services, appraisal services, flood zone determinations and consumer mortgage credit reporting services.

Real Estate Transaction Management Services LandAmerica OneStop 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. We provide 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. Transaction management services include the coordination and delivery of title insurance, mortgage credit reporting, flood zone determinations, property appraisal and valuation, property inspections, closing and escrow services, and real estate tax processing services.

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Appraisal and Valuation Services Through our merger with Capital Title and its appraisal subsidiary, we offer a broad suite of valuation applications, which include automated valuation models, traditional appraisals, broker price opinions, collateral scores and appraisal reviews utilized by participants in the secondary mortgage markets. Prior to the Capital Title merger, we offered these services through one of our joint ventures. As a result of the merger, we had the ability to offer appraisal services directly and we sold our interest in the joint venture.

Flood Zone Determinations LandAmerica Flood Services and Nationwide Total Flood Services, Inc. provide mortgage lenders with certifications that indicate whether the property securing the loan is located in a special flood hazard area as defined by the U.S. Federal Emergency Management Agency (FEMA). Our flood service includes an initial flood zone determination report provided to the lender at the origination of the loan and subsequent notifications provided to the lender during the term of the loan of any changes in a property s flood zone status brought about by changes in flood insurance rate maps issued by FEMA.

Consumer Mortgage Credit Reporting LandAmerica Credit Services is a nationwide provider of consumer credit reports and income, employment, and tax return verifications to lenders engaged in mortgage origination. Our technology interfaces with many loan origination systems and directly with Fannie Mae and Freddie Mac and permits 24 hours, 7 days a week monitoring and response. Our credit information is obtained using technology linked to the three major credit repositories: Equifax, Experian and Trans Union. In addition, through Bureau Direct , a borrower s erroneous credit information can be updated at each of the three major credit repositories in 72 hours or less, thereby reducing the necessary paperwork and time required by the borrower and the lender seeking to close a consumer s lending transaction.

Although there are numerous suppliers of mortgage origination services to national and regional mortgage lenders, our largest competitors with whom we compete on the business of price and service are First Advantage CREDO, CBC Companies, Equifax and Kroll Factual Data, Inc.

Our loan servicing business provides real estate tax processing services and default management services.

Tax Services LandAmerica Tax Services offers real estate tax processing services to mortgage lenders. We monitor and report real estate property tax data needed by mortgage lenders on secured properties. During the lending process, we advise lenders whether any delinquent taxes are associated with the property. Where the lender requires an escrow for the payment of taxes by borrowers during the term of the loan, we determine the timing and amount of the tax payment due on the property and interface with the loan servicing department of the mortgage lender and the various local taxing authorities to facilitate the timely payment of real property taxes.

Services performed for mortgage lenders vary significantly. While some lenders prefer complete outsourcing of all tax service functions, other lenders prefer to perform their own tax services and purchase data from us. Recently, we believe that the trend among large lenders has been to perform certain functions of their own tax processing services, known as insourcing. We have developed a series of products to provide those lenders with the data and other tools they need to insource their tax service functions.

Default Management LandAmerica Default Services provides comprehensive default management services to lenders and mortgage servicing operations. These services consist of foreclosure processing, broker price opinions and appraisal coordination, management of properties acquired at foreclosure (REO), senior lien monitoring, bankruptcy services and lien processing release.

Through a 2006 acquisition, we now offer BackInTheBlack, a web-based application that focuses on loss mitigation and collections and is implemented with client specific rules to allow client capability to manage the entire default process from beginning to end, from collections to property disposition. BackInTheBlack transforms default servicing by replacing current home-grown, paper-based techniques with a unified problem loan underwriting solution.

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Although there are numerous suppliers of loan services, our largest competitors with whom we compete on the basis of price and service are The First American Corporation and Fidelity National Financial, Inc. (formerly Fidelity National Title Group, Inc.).

Our subservicing business provides loan subservicing services through our subsidiary, LoanCare Servicing Center, Inc. (LoanCare).

Subservicing LoanCare is an approved servicer for the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, the Federal Housing Administration, the Veterans Administration, several nationwide financial institutions, and a number of private investors. Our loan subservicing services are offered through interim and private label subservicing programs. Interim subservicing is utilized by lenders selling loans in the secondary market pending the transfer of the loans and the related servicing rights to a permanent purchaser/investor. The private label subservicing program is utilized by lenders wishing to promote the relationship between themselves and their borrowers.

Although there are numerous providers of subservicing services, our largest competitors with whom we compete on the basis of price and service are Cenlar FSB, GMAC Mortgage Corporation, Countrywide Home Loans, Inc. and Freedom Mortgage.

Portions of our Lender Services segment, particularly in our mortgage origination business, have cyclical and seasonal trends similar to our Title Operations segment. In contrast, we believe that a higher interest rate environment and weakness in the overall economy may increase the volume of mortgage defaults which increases our default management business. In addition, in instances where we receive cash in advance for services for real estate tax processing services, the revenue is deferred and amortized ratably over the anticipated life of the loan servicing. This ratable amortization has the impact of reducing the volatility in revenue related to this segment. However, loss of a customer may accelerate recognition of revenue in certain periods resulting in one-time volatility.

The top five customers in our Lender Services segment account for approximately 29.9 percent of operating revenue.

Financial Services

The Financial Services segment includes Orange County Bancorp and its wholly-owned subsidiary, Centennial Bank, a California industrial bank we acquired in November 2003 (Centennial). Centennial's primary business is the origination and bulk purchase of commercial real estate loans in the Southern California market, and to a lesser degree, in the Arizona and Nevada markets. Deposits are solicited through the internet for both certificates of deposit and passbook savings accounts. As an industrial bank, Centennial does not accept demand deposits, such as checking accounts, that provide for payment to third parties. Centennial does not offer banking services such as credit cards or automated teller machines. We utilize Centennial to hold a portion of our escrow deposits. The following is a summary of certain information relating to Centennial's deposits, loans and allowances for loan losses for the last five years. Information related to periods prior to the acquisition date has not been included in our financial position and results of operations.

Total deposits held by Centennial were \$618.2 million at December 31, 2006 and \$547.2 million at December 31, 2005. Certificates of deposit and passbook savings accounts represented 35.9 percent and 64.1 percent of total deposits, respectively, at December 31, 2006 and 47.3 percent and 52.7 percent of total deposits, respectively, at December 31, 2005.

Centennial had outstanding loans of \$535.5 million, or 86.6 percent of total deposits, at December 31, 2006 and \$436.1 million, or 79.7 percent of total deposits, at December 31, 2005. The average loan balance outstanding was \$1.2 million at December 31, 2006 and \$0.8 million at December 31, 2005. Centennial makes loans only on a secured basis at loan-to-value percentages typically no greater than 75 percent. Substantially all of Centennial's loans are made on a variable rate basis. Loans that Centennial made or acquired during 2006 ranged in amount from \$0.3 million to \$5.3 million and \$0.3 million to \$9.0 million made or acquired during 2005. Centennial's commercial real estate loans are typically smaller in size and more tailored to fit the customer than those issued by

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large financial institutions that maintain minimum size requirements of \$5.0 million or more. Centennial's primary competitors in the California market are local community banks, thrift and loan companies and, to a lesser extent, commercial banks.

The average yield on Centennial's loan portfolio as of December 31, 2006 was 6.9 percent. A number of factors are included in the determination of average yield, principal among which are interest, loan fees and closing points amortized to income, prepayment penalties recorded as income, and amortization of premiums on purchased loans.

The following table presents Centennial's outstanding loans, by category, as of the dates indicated.

	2006	Year Ended December 31,			2002
		2005	2004	2003	
	(In millions)				
Commercial, financial and agricultural	\$	\$	\$	\$ 0.1	\$ 0.1
Real estate mortgage	535.5	435.8	342.3	253.9	203.7
Installment loans to individuals		0.3	1.5	4.3	11.0
Lease financing					0.3
Total	\$ 535.5	\$ 436.1	\$ 343.8	\$ 258.3	\$ 215.1

The performance of Centennial's loan portfolio is evaluated on an ongoing basis by our management. Loans are typically classified as non-accrual if they miss three or more contractual payments. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, in accordance with the contractual payment terms of interest and principal. While a loan is classified as non-accrual and future collectibility of the recorded loan balance is doubtful, collections of both interest and principal are generally applied as a reduction to principal outstanding. When the future collectibility of the recorded loan balance is expected, interest may be recognized on a cash basis. There have been no loans classified as non-accrual during the past five years.

The allowance for loan losses is established through a provision for loan losses. A loan is charged off against the allowance for loan losses when we believe that collectibility of the principal is unlikely. The allowance is an amount that we believe is adequate to absorb estimable and probable losses on existing loans and contracts. We take into consideration changes in the nature and volume of our portfolio, overall portfolio quality, prior loss experience, review of specific problem loans and contracts, regulatory guidelines and current economic conditions that may affect the borrower's ability to pay. Additionally, certain regulatory agencies, as part of their examination process, periodically review our allowance for loan losses. These agencies may require adjustments to the allowance based on their judgment regarding information made available to them. See Note 1 in our financial statements under Part II, Item 8, Financial Statements and Supplementary Data.

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The following table provides certain information with respect to Centennial's allowance for loan losses and charge-off and recovery activity for the periods indicated.

	2006	Year Ended December 31,			
		2005	2004	2003	2002
(Dollars in millions)					
Balance at beginning of period	\$ 4.2	\$ 3.4	\$ 2.6	\$ 2.1	\$ 1.6
Charge-offs:					
Installment loans to individuals			0.1	0.3	0.5
Total loans charged off			0.1	0.3	0.5
Recoveries:					
Real estate mortgage					
Installment loans to individuals				0.1	0.1
Total recoveries				0.1	0.1
Net charge-offs			0.1	0.2	0.4
Provision for loan losses	0.7	0.8	0.9	0.7	0.9
Balance at end of period	\$ 4.9	\$ 4.2	\$ 3.4	\$ 2.6	\$ 2.1
Ratio of net charge-offs to average loans outstanding during the period	0.0%	0.0%	0.0%	0.1%	0.2%

The following table shows the allocation of Centennial's allowance for loan losses and the percent of loans in each category to total loans as of the dates indicated.

	Year Ended December 31,									
	2006		2005		2004		2003		2002	
	(Dollars in millions)									
	Amount	% ⁽¹⁾	Amount	% ⁽¹⁾	Amount	% ⁽¹⁾	Amount	% ⁽¹⁾	Amount	% ⁽¹⁾
Real estate mortgage	\$ 4.7	95.9%	\$ 2.1	50.0%	\$ 1.7	50.0%	\$ 1.3	50.0%	\$ 0.9	42.9%
Installment loans to individuals					0.1	2.9	0.2	7.7	0.4	19.1
Unallocated	0.2	4.1	2.1	50.0	1.6	47.1	1.1	42.3	0.8	38.0
Total	\$ 4.9	100.0%	\$ 4.2	100.0%	\$ 3.4	100.0%	\$ 2.6	100.0%	\$ 2.1	100.0%

⁽¹⁾ Each percentage represents the percent of the loans in the applicable category to total loans.

Corporate and Other

The Corporate and Other group of businesses include LandAmerica Assessment Corporation, LandAmerica Valuation Corporation, LandAmerica Property Inspection Services, and Buyers Home Warranty Company.

LandAmerica Assessment Corporation LandAmerica Assessment Corporation offers due diligence services to assist clients in determining the initial feasibility of commercial real estate transactions and ongoing due diligence requirements in the United States, Canada, Mexico, the Caribbean, Europe and Asia. Our field professionals provide coverage for a variety of due diligence services including property condition assessment services, environmental assessment services, construction monitoring services, and surveillance services.

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Property condition assessment services typically involve the assessment of the condition of a property and its systems including structural integrity, HVAC, mechanical and electrical, fire and safety, as well as zoning,

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building code and handicap compliance. LandAmerica Assessment Corporation also will assess seismic vulnerability, providing our clients with a statement of probable maximum loss based on field observation, geotechnical information, seismicity, liquefaction and slope gradient.

Environmental assessment services are used to determine the environmental liability risk of a given property. LandAmerica Assessment Corporation is well-versed in a wide variety of scope variations and has experience with most major lending institutions and investment banking criteria including ASTM E 1528, Fannie Mae®, Freddie Mac®, Thrift Bill 16, and S&P.

Construction monitoring services include construction cost analysis and construction progress monitoring on all types of projects such as commercial/retail, residential tract development and assisted living, hospitality, and industrial developments.

LandAmerica Valuation Corporation LandAmerica Valuation Corporation offers commercial appraisals and valuations on all types of commercial property including office, retail, industrial, multi-family, special purpose, and hospitality. Custom report formats are offered based on lender specifications in addition to all standard commercial reports.

LandAmerica Property Inspection Services LandAmerica Property Inspection Services provides primarily residential inspections for real estate transactions in Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, New Jersey, North Carolina, Ohio, Texas, Washington, and Wisconsin.

Buyers Home Warranty Company LandAmerica Home Warranty has the ability to provide and service home warranty contracts in every state except for Virginia, where its license application is currently pending.

Corporate and Other also includes the unallocated portion of the corporate expenses related to our corporate offices in Richmond, Virginia (including unallocated interest expense).

Investment Policies

We earn investment income from our investment portfolio which primarily resides in our title insurance subsidiaries and consists of fixed-maturity debt securities and equity securities issued principally by corporations and the United States government and its agencies, and state and local jurisdictions. Additionally, we earn investment income through our portfolio of loans receivable at Centennial. Our investment portfolio is managed by professional investment advisors under guidelines that govern the types of permissible investments, investment quality, maturity, duration, and concentration of issuer to comply with the various state regulatory requirements while maximizing net after-tax yield. These guidelines and our investment strategies are established and periodically reexamined by the Investment Funds Committee of our Board of Directors. At December 31, 2006, substantially all of our investment portfolio consisted of investment grade securities. Under our investment guidelines, up to 5 percent per investment class of the investment portfolio may be invested in non-fixed maturity investments which may include business development, real estate, tax credits and private placement securities. In addition, up to 10 percent of the investment portfolio may be invested in equity securities. This committee also reviews the performance of the investment advisors on a quarterly basis. See Note 3 in our financial statements under Part II, Item 8, Financial Statements and Supplementary Data.

Centennial's loan portfolio consists primarily of moderately sized commercial real estate loans to individuals, corporations, LLCs and partnerships. Loan applications go through a rigorous underwriting process before being submitted for approval to the Loan Committee of Centennial's Board of Directors. Although the vast majority of loans are secured by real estate located in California, the portfolio is well diversified by borrower, property location and property type. Beginning in 2006, Centennial started to underwrite loans in Nevada and Arizona. Loans typically meet maximum loan to value requirements of 75 percent. Operating income and rental income generated by the real estate of the borrower generally results in a debt coverage ratio in excess of 1.15x. Monthly loan portfolio performance reports are reviewed by Centennial's Board of Directors.

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Employees

As of December 31, 2006, we had approximately 13,500 full time and 750 part time employees. Our relationship with our employees is good. No employees are covered by any collective bargaining agreements, and we are not aware of any union organizing activity relating to our employees.

ITEM 1A. RISK FACTORS

Our business is subject to various risks, including the risks described below. Our business, operating results and financial condition could be materially and adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

Our results of operations and financial condition are susceptible to changes in mortgage interest rates and general economic conditions.

The demand for our title insurance and other real estate transaction products and services is dependent upon, among other things, the volume of commercial and residential real estate transactions, including mortgage refinancing transactions. The volume of these transactions has historically been influenced by factors such as interest rates and the state of the overall economy. When interest rates are increasing or during an economic downturn or recession, real estate activity typically declines and we tend to experience lower revenue and profitability. In addition, foreign hostilities could adversely impact the demand for real estate transactions. The cyclical nature of our business has caused fluctuations in revenue and profitability in the past and is expected to do so in the future. In addition, changes in interest rates may have an adverse impact on our return on our investments, the market value of our investment portfolio and interest paid on our bank debt.

Changes to the participants in the secondary mortgage market could affect the demand for title insurance products.

The demand for our title insurance products and services depends upon, among other things, the volume of commercial and residential real estate transactions, including mortgage refinancing transactions. In turn, the volume of commercial and residential real estate transactions depends in part upon the requirements of participants in the secondary mortgage market, who purchase large volumes of real estate loans secured by commercial and residential real property (including but not limited to Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association) to obtain title insurance policies on such real property. Therefore, changes to the composition of the participants in the secondary mortgage market or their requirements that title insurance policies be obtained could adversely affect the demand for our title insurance products.

We are subject to government regulation.

We are subject to federal and state laws and regulations that are administered and enforced by insurance regulators and other governmental authorities. These laws and regulations are generally intended for the protection of policyholders and consumers rather than security holders. The nature and extent of these laws and regulations vary from jurisdiction to jurisdiction, and their applicability varies from subsidiary to subsidiary, but typically involve:

prior approval of the acquisition and control of an insurance company or of any company controlling an insurance company;

regulation of certain transactions, including dividend payments, entered into by an insurance company with any of its affiliates;

approval of premium rates for insurance;

standards of solvency and minimum amounts of capital surplus that must be maintained;

limitations on types and amounts of investments;

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restrictions on the size of risks that may be insured by a single company;

licensing of insurers, agents, inspectors, appraisers, home warranty, loan subservicing and other companies and/or employees and independent contractors;

deposits of securities for the benefit of policyholders;

approval of policy forms;

methods of accounting;

establishing reserves for losses and loss adjustment expenses;

regulation of underwriting, marketing and business practices;

regulation of reinsurance;

regulation of escrow accounts;

regulation regarding the use of personal information; and

filing of annual and other reports with respect to financial condition and other matters.

Centennial is subject to regulation and supervision by the Federal Reserve Bank, the Federal Deposit Insurance Corporation and the California Department of Financial Institutions. Banking regulations are intended primarily to protect depositors and the federal deposit insurance funds and not shareholders. Regulatory requirements affect, among other things, our banking subsidiary's practices, capital level, investment practices, dividend policies and growth.

These laws and regulations are subject to change and may impede, impose burdensome conditions on, or cause rate adjustments or other actions that could materially and adversely affect our business, operating results and financial condition. In addition, state regulatory examiners perform periodic examinations of insurance companies. We can make no assurances regarding the potential impact of state or federal laws, regulations, policies or interpretations that may change the nature or scope of title insurance or other regulation.

Heightened regulatory scrutiny of us and the title insurance industry, including pricing of title insurance products and services, could materially and adversely affect our business, operating results, and financial condition.

We have been subject to information requests and subpoenas from various regulatory authorities relating to investigations of our business practices and those of the title insurance industry. The Government Accountability Office and various states are studying the title insurance product, market, pricing, business practices, and potential regulatory and legislative changes. Multiple states are examining pricing levels and/or title insurance regulations. If it is determined that prices are not justified, rate changes may be implemented, including potential reductions. These rate actions could result in decreased levels of revenue. If we fail to reduce our staffing and other costs to a level consistent with decreased revenues, there could be a material and adverse effect on our business, operating results, and financial condition. Any restrictions imposed or actions taken by states with respect to us or the title insurance industry in general may adversely affect our business, operating results, and financial condition.

We may not be able to fuel our growth through acquisitions.

Our growth has been facilitated by acquisitions, which may or may not be available on acceptable terms in the future, and which, if consummated, may or may not be advantageous to us. While we expect to continue making acquisitions or entering into joint ventures as part of our long-term business strategy to expand the services we provide and their distribution, no assurances can be given that we will do so or that we will continue to acquire businesses at the levels previously experienced. We may not be able to identify suitable acquisition candidates or complete acquisitions on satisfactory terms. Our competitors also have adopted the strategy of expanding and diversifying through acquisitions, and as a result, we may be forced to pay more to acquire companies.

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Our inability to integrate and manage successfully our acquired businesses could adversely affect our business, operating results, and financial condition.

Our acquisitions and joint ventures may or may not be outside of our traditional business operations. The process of integrating any acquired business involves a number of special risks, including our inexperience in managing businesses that provide products and services beyond our traditional business; new regulatory requirements; diversion of management's attention; failure to retain key acquired personnel (resulting from changes in compensation, reporting relationships, future prospects, or the direction of the business); increased costs to improve managerial, operational, financial and administrative systems; legal liabilities; amortization of acquired intangible assets; and failure in the implementation of controls, procedures and policies appropriate for a larger public company that the acquired business lacked prior to acquisition. In addition, there can be no assurance that acquired businesses will achieve anticipated levels of revenue, earnings or performance. Our failure to manage acquisitions successfully could materially and adversely affect our business, operating results, and financial condition.

Regulatory non-compliance, fraud or defalcations by our title insurance agents or employees could adversely affect our business, operating results, and financial condition.

Our title insurance agents are entities that often represent more than one title insurance underwriter and operate their businesses independently, but subject to various underwriting guidelines from their title underwriter(s). In addition to potential liability on policies written by our agents, governmental authorities or litigants may seek to assign liability to us for the actions of our agents in circumstances where they were acting outside the scope of their authority as agents. In certain circumstances, we may incur losses for the fraud, defalcation, regulatory noncompliance and other misconduct of our agents and employees. To the extent that any loss is substantial, there could be a material adverse effect on our business, operating results, and financial condition.

Competition in our industry affects our revenue.

The business of providing real estate transaction products and services is very competitive. Competition for residential title insurance business is based primarily on quality of service and price within regulatory parameters. 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 within regulatory parameters, 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. Although we are one of the largest providers of real estate transaction products and services in the United States, four other companies—Fidelity National Financial, Inc. (formerly Fidelity National Title Group, Inc.), The First American Corporation, Old Republic International Corporation and Stewart Information Services, Inc.—have the size, capital base and agency networks to compete effectively with our products and services, both in the United States and abroad. In addition, some of our competitors may have, or will have in the future, greater capital and other resources than us. Competition among the major providers of real estate transaction products and services and any new entrants could materially and adversely affect our business, operating results, and financial condition.

Significant industry changes and new product and service introductions require timely and cost-effective responses.

As a national provider of real estate transaction products and services, we participate in an industry that is subject to significant change, frequent new product and service introductions, evolving industry standards and increased customer leverage. In addition, alternatives to traditional title insurance, such as lien protection products, have emerged in recent years. We believe that our future success will depend on our ability to anticipate changes in technology and customer demands and to offer products and services with state of the art technological attributes that meet evolving standards on a timely and cost-effective basis. The development and implementation of new products, services and technology may require significant capital expenditures and other resources and involve new risks we have not previously managed. There is a risk that customers may not accept our new products, services or technology and we may not successfully identify, develop and introduce new product and service opportunities or simplify and update our technology to be more operationally efficient and/or better able to deliver superior customer

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service in a timely and cost-effective manner. In addition, products and services that our competitors and other real estate industry participants develop or introduce may render certain of our products and services obsolete or noncompetitive. We license software and technology from third parties, including some competitors, and incorporate it into or sell it in conjunction with our own software products, some of which is critical to the operation of our business. If any of the third party software vendors were to change product offerings, increase prices or terminate our licenses, we might need to seek alternative vendors and incur additional internal or external development costs to ensure continued performance of our products. Such alternatives may not be available on attractive terms, or may not be as widely accepted or as effective as the software provided by our existing vendors. The costs associated with licensing or maintenance of these third party software products or other technology or simplification and updating of our technology could cause our gross margin levels to decrease significantly. Further, our third party vendors may not have the capacity to develop and support software and systems that are necessary to process large volumes of transactions. In addition, interruption in functionality of our products could adversely affect future sales of licenses and services. Advances in technology could also reduce the useful lives of our products, preventing us from recovering fully our investment in particular products and services. As a result, our inability to anticipate industry changes and to respond with competitive and profitable products and services could materially and adversely affect our business, operating results, and financial condition.

Our litigation risks include substantial claims by large classes of claimants.

From time to time we are involved in litigation arising in the ordinary course of our business. In addition, we currently are and have in the past been subject to claims and litigation not arising in the ordinary course of business from large classes of claimants seeking substantial damages. Material pending legal proceedings not arising in the ordinary course of business are disclosed in our filings with the Securities and Exchange Commission. See Part I, Item 3 Legal Proceedings set forth elsewhere in this report. An unfavorable outcome in any class action suit or other claim, inquiry, investigation or litigation against us could have a material adverse effect on our business, operating results, and financial condition.

Key accounting and essential product delivery systems are concentrated in a few locations.

Our corporate headquarters, accounting and technology operations are concentrated in Richmond, Virginia. Our agency services center is located in Louisville, Kentucky, which is operated by Intellihub Solutions and Services, LLC, a joint venture in which we own a minority interest. These critical business operations are subject to interruption by natural disasters, fire, power shortages, and other events beyond our control. Although we are upgrading our disaster recovery functionality and have prepared a business continuity plan, a catastrophic event that results in the destruction or disruption of any of our critical business operations or systems could severely affect our ability to conduct normal business operations and, as a result, there could be a material and adverse effect on our business, operating results, and financial condition.

Provisions of our articles of incorporation and bylaws, our shareholder rights plan and applicable state corporation and insurance laws could limit another party's ability to acquire us and could deprive shareholders of the opportunity to obtain a takeover premium for shares of common stock owned by them.

Provisions in our articles of incorporation and bylaws may make it difficult for another company to acquire us and for shareholders to receive any related takeover premium for our common stock. These provisions include, among other things:

a staggered board of directors in which the board of directors is divided into three classes, with one class elected each year to serve a three year term;

the absence of cumulative voting in the election of directors;

the removal of directors only for cause and only upon the affirmative vote of the holders of at least 80 percent of the outstanding shares entitled to vote;

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a vote of at least 80 percent of the outstanding shares entitled to vote is required for the approval of a merger or consolidation with, or a sale, lease or exchange of substantially all our assets to, any shareholder that directly or indirectly owns or controls 10 percent or more of the voting power of us; and

the ability of our Board of Directors to issue up to 4,800,000 shares of preferred stock, the terms of which may be determined by our Board of Directors at the time of issuance without further action by shareholders. The issuance of any preferred stock could materially and adversely affect the rights of holders of our common stock and could reduce the value of our common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of our Board of Directors to issue preferred stock could delay, discourage, prevent or make it more difficult or costly to acquire us or effect a change in control in our Board of Directors.

In addition, our Board of Directors has adopted a shareholder rights plan that could result in substantial dilution to persons or groups that acquire beneficial ownership of, or announce a tender offer for, 20 percent or more of our common stock. In connection with the rights plan, the Board of Directors has issued rights that attach to each share of common stock and authorized the issuance of 200,000 shares of Series A Junior Participating Preferred Stock. The shareholder rights plan expires on August 20, 2007.

The laws of Virginia also contain provisions designed to deter certain takeovers of Virginia corporations. The affiliated transaction provisions of Virginia law prohibit, subject to certain exceptions, a Virginia corporation from engaging in specified transactions with the beneficial owner of more than 10 percent of any class of the corporation's voting securities for a period of three years following the date upon which the shareholder acquires the requisite number of securities. The types of transactions covered by the law include certain mergers, share exchanges, material dispositions of corporate assets not in the ordinary course of business, dissolutions, reclassifications and recapitalizations.

Other provisions of Virginia corporation law generally deny voting rights to shares of a public corporation acquired in a control share acquisition, which is an acquisition by any person of beneficial ownership of shares that meet or exceed a specified threshold percentage (20 percent, 33.33 percent or 50 percent) of the total votes entitled to be cast for the election of directors, unless approved by a majority vote of all outstanding shares other than those held by the acquiring person. Although our charter currently makes these provisions inapplicable to acquisitions of shares of our common stock, these provisions could become applicable in the future if an amendment to our charter is approved by our Board of Directors and shareholders.

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 would generally require approval by the state insurance departments of, California, Nebraska, New Jersey, Tennessee, and Texas. Such a requirement could have the effect of delaying or preventing certain transactions affecting the control or the ownership of our common stock, including transactions that could be advantageous to our shareholders.

Our future success depends on our ability to continue to attract and retain qualified employees.

Our success depends upon our ability to continue to attract and retain highly skilled technical, managerial, sales and marketing personnel, especially sales and marketing personnel who control customer relationships critical to our business. If our efforts in these areas are not successful, our costs may increase, development and sales efforts may be hindered and our customer service may suffer. Although we invest significant resources in recruiting and retaining employees, there is intense competition for personnel in the title insurance industry. From time to time, we experience difficulties in locating enough highly qualified candidates in desired geographic locations, or with required industry-specific expertise.

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Our conduct of business in foreign markets creates financial and operational risks and uncertainties that may materially and adversely affect our business, operating results, and financial condition.

We currently provide title insurance and other real estate transaction products and services in foreign countries. As of December 31, 2006, we conducted business in a number of foreign markets, including Mexico, Canada, the Caribbean, Latin America, Europe and Asia. In certain countries where we do business, our products and services have a limited history and are not well-established. As a result, market acceptance of our products and services is uncertain, and we may not be able to successfully implement our business plan. Government regulations may determine how we operate in various countries, which could limit our growth and strategy plans. Our foreign business is subject to potential changes in political and economic conditions in the local markets in which they operate, which could adversely affect their performance. We are also subject to foreign taxes in the countries in which we operate, and changes in tax laws or the interpretation of tax laws may reduce our earnings or may increase our tax cost.

Our claims experience may require us to increase our provision for title losses or to record additional reserves, either of which may adversely affect our earnings.

Estimating future loss payments is difficult, and our assumptions about future losses may prove inaccurate, particularly losses involving new products and services and business in foreign markets. Claims are often complex and involve uncertainties as to the dollar amount and timing of individual payments. Claims are often paid many years after a policy is issued. From time to time, we experience large losses from title policies that have been issued, which require us to increase our title loss reserves. These events are unpredictable and may adversely affect our earnings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease a three building complex in Glen Allen, Virginia that is currently used for our corporate offices. This property consists of approximately 298,000 square feet of office space and parking facilities. Our subsidiaries conduct their business operations primarily in leased office space in forty states, Puerto Rico, Canada, Mexico Germany and Switzerland. In addition, we own certain properties that, in the aggregate, are not material to our business taken as a whole.

Our title plants constitute a principal asset. Title plants consist of copies of public records, maps, documents, previous reports, and policies indexed to specific properties in an area. The title 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 updated (with the exception of certain title plants) through the addition of copies of documents filed of record which affect real property. We maintain title plants covering many of the areas in which we operate, although certain offices utilize title plants jointly owned and maintained with other title insurers. We capitalize 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.

On February 23, 1998, we 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 we 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, we 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.

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We believe that our properties are maintained in good operating condition and are suitable and adequate for our purposes.

ITEM 3. LEGAL PROCEEDINGS

General

We are involved in certain litigation arising in the ordinary course of our businesses. Although the ultimate outcome of these matters cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, we believe, based on current knowledge, that the resolution of these matters will not have a material adverse effect on our financial position or results of operations.

Litigation Not in the Ordinary Course of Business

On June 22, 2004, Gateway Title Company, Inc. (Gateway), Commonwealth Land Title Company, Inc. and LandAmerica Financial Group, Inc. (collectively, Plaintiffs) filed a Complaint, subsequently amended by a First Amended Complaint filed June 25, 2004, in the Superior Court of California, County of Los Angeles, Central District (the Court), against the Mercury Company and its affiliates Financial Title, Alliance Title, Investors Title and various individuals including Joseph DiChiacchio, a former manager of LandAmerica (Case No. BC 317441) (collectively, Defendants). The lawsuit claims substantial monetary and punitive damages for unfair competitive business practices in conjunction with Plaintiffs loss of over 300 employees in California, most of which appears to have occurred within an approximately twenty-four month period. On August 12, 2004, the Court granted a Temporary Restraining Order, followed by a Preliminary Injunction granted September 27, 2004, against Defendants based upon a showing of significant likelihood of Plaintiffs prevailing on the merits combined with irreparable harm to Plaintiffs if injunctive relief did not issue. The injunctive relief generally prohibited the solicitation of Plaintiffs employees. The preliminary injunctive relief has now expired. On December 13, 2004, Alliance Title Company, Inc., Financial Title Company, Inc., Roberto Olivera and Ray Arias filed a Cross-Complaint for unfair competitive business practices. On December 13, 2004, Mr. DiChiacchio also filed a Cross-Complaint alleging similar claims, including back wages and additional bonus payments. Plaintiffs are disputing and intend to vigorously defend the Cross-Complaints. A mandatory settlement conference was held on August 1, 2005 and voluntary mediation on September 7, 2005. After completion of discovery, a jury trial began in early May 2006 and resulted in a verdict for Gateway of approximately \$8.3 million. Judgment has not been entered pending resolution of the Cross-Complaints currently set for trial on April 16, 2007. We are evaluating whether or not to appeal the verdict and have agreed to engage in voluntary mediation on April 4, 2007 in an effort to resolve all claims. Management believes that the award of damages to Plaintiffs exceeds any claim of offset raised in the Cross-Complaints.

On January 14, 2005, First California Title Company, New Century Title Company and United Title Company (collectively, Plaintiffs) filed a Complaint in the Superior Court of the State of California, County of Los Angeles, against Financial Title Company, Mercury Companies, Inc., Stacy Neves, Stephanie Howard, George Willard and Tony Becker (Case No. BC 327332) (collectively, Defendants). On September 8, 2006, we completed the merger with Plaintiffs. The lawsuit claims substantial monetary and punitive damages for unfair competitive business practices in conjunction with Plaintiffs loss of approximately 80 employees in California to Defendants over an approximately eight month period. The complaint was later amended to include Alliance Title Company and Christine De Martini as named Defendants. A jury trial began on October 17, 2006. On December 28, 2006, the jury returned its verdict for Plaintiffs in the approximate amount of \$2 million. The punitive damages phase of the bifurcated trial was held on January 2, 2007 and resulted in a punitive damages award for Plaintiffs in the approximate amount of \$14.6 million. Judgment has not been entered pending resolution of post-trial motions and could be appealed. The parties have agreed to engage in voluntary mediation on April 4, 2007 in an effort to resolve their claims.

On January 25, 2002, Miles R. Henderson and Patricia A. Henderson (the Plaintiffs in the Henderson Suit) filed a putative class action suit (the Henderson Suit) against Lawyers Title Insurance Corporation (Lawyers Title) in the Court of Common Pleas for Cuyahoga County, Ohio. Lawyers Title removed the case to the District Court for the Northern District of Ohio on March 6, 2002, and the Plaintiffs amended the complaint on March 8, 2002. On June 28, 2002, the District Court remanded the case to the Court of Common Pleas for

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Cuyahoga County, Ohio. A similar putative class action suit was filed against Commonwealth, by Rodney P. Simon and Tracy L. Simon (the Plaintiffs in the Simon Suit) in the Court of Common Pleas for Cuyahoga County, Ohio on March 5, 2003. The Plaintiffs in both suits alleged that the defendants had a practice of charging original rates for owners title insurance policies when lower, reissue rates should have been charged. Both defendants initially responded by demanding that the actions be arbitrated, but on final appeal to the Ohio Supreme Court, the Court ruled that arbitration was not required for either suit. On remand to the trial court, the Plaintiffs in the Henderson Suit are now seeking to have the case certified as a class action on behalf of all sellers and buyers of residential property in Ohio who paid the higher original rate from 1992 to the present. The court has set a hearing date of August 29, 2007. The Plaintiffs in the Simon Suit are seeking to have the case certified as a class action on behalf of all sellers of residential property in Ohio, who paid the original rate from 1993 to the present, as requested in the original complaint, although no hearing date on the class certification has been scheduled. The Plaintiffs in both cases have demanded an unspecified amount of compensatory damages, declaratory and injunctive relief, punitive damages, and attorneys' fees and costs. These cases are in the early stages, there have been no class certifications, and the defendants believe that they have meritorious defenses. At this stage of the litigation, the amount or range of loss that could result from an unfavorable outcome cannot be reasonably estimated.

We are defendants in a number of other purported class action cases pending in various states that include allegations that certain consumers were overcharged for title insurance and/or related services. The dollar amount of damages sought has generally not been specified in these cases except for jurisdictional limits. We intend to vigorously defend these actions.

Regulatory Proceedings

We have received certain information requests and subpoenas from various regulatory authorities relating to our business practices and those of the title insurance industry.

The Government Accountability Office and various states are studying the title insurance product, market, pricing, business practices, and potential regulatory and legislative changes. Multiple states, including California, Florida, Nevada, New Mexico, New York, Texas, and Washington, are examining pricing levels and/or title insurance regulations. If it is determined that prices are not justified, rate changes may be implemented, including potential reductions. Some of the examinations, like those conducted in Texas and New Mexico, are conducted annually or biannually and usually result in adjustments to the prices we can charge. Subsequent to a hearing of the Texas title rate case in August 2006, the Texas Commissioner of Insurance ordered a rate reduction of 3.2 percent effective February 1, 2007. The California Department of Insurance (CA DOI) submitted to the Office of Administrative Law (OAL) proposed regulations governing the rating of title insurance and related services that could impose future rate reductions and filing of mandated statistical plans that impose substantially higher costs on title insurance operations in California. On February 21, 2007, the OAL disapproved the regulatory action for failure to comply with certain standards and requirements. The OAL will issue a written decision detailing the reasons for disapproval by February 28, 2007 and the CA DOI will then have 120 days to resubmit the regulatory action.

In addition, a number of state inquiries have focused on captive reinsurance. Captive reinsurance involves the provision of reinsurance by a reinsurance company that is owned by another entity, typically a lender, developer or other party that is a provider of real estate-related services. From the inception of our captive reinsurance programs in 1997 through 2004, reinsurance premiums paid by us to captive reinsurers totaled approximately \$12.0 million. The revenues from these programs were not material to our results of operations. We voluntarily terminated our captive reinsurance arrangements as of February 2005, notwithstanding our belief that we had operated the programs in accordance with applicable law. We settled these investigations with six states, representing approximately 81.4 percent of our captive reinsurance business, without admitting any liability.

In June 2005, we established reserves of \$19.0 million to cover anticipated exposure to regulatory matters nationwide, an amount which includes settlements with the California, Arizona, Nevada, Virginia, Colorado, and North Carolina departments of insurance. Based on these settlements and the status of inquiries, we released \$6.7 million of this reserve back into earnings in fiscal year 2005 and \$0.8 million in fiscal year 2006. The remaining reserve at December 31, 2006 was approximately \$4.9 million.

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We may receive additional subpoenas and/or requests for information in the future from state or federal government agencies. We will evaluate, and we intend to cooperate in connection with, all such subpoenas and requests.

Based on the information known to management at this time, it is not possible to predict the outcome of any of the currently pending governmental inquiries and investigations into the title insurance industry's market, business practices, pricing levels, and other matters, or the market's response thereto. However, any material change in our business practices, pricing levels, or regulatory environment may have an adverse effect on our business, operating results and financial condition.

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 2006.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the persons who serve as our executive officers, their ages and positions as of February 28, 2007, 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 or chosen to become a director or executive officer.

Name	Age	Office and Experience
Kenneth Astheimer	58	President - Agency Services since January 1, 2007 and Executive Vice President - Agency Services of LandAmerica from September 2002 through December 31, 2006. Mr. Astheimer also serves as Executive Vice President for each of Lawyers Title, Commonwealth and Transnation, positions held for more than five years. Mr. Astheimer previously served as President and Chief Executive Officer of LandAmerica OneStop from January 2001 to September 2002.
Paul M. Bedell	44	Executive Vice President and Chief Operations Resources Officer of LandAmerica since January 1, 2007 and Executive Vice President - Sales Resources of LandAmerica from September 2003 to December 31, 2006. Mr. Bedell previously served as Senior Vice President - Corporate Strategy and Business Development for Citigroup Citifinancial International from January 1, 2001 until September 2003.
Theodore L. Chandler, Jr.	54	Chairman and Chief Executive Officer of LandAmerica since January 1, 2007; President and Chief Executive Officer of LandAmerica from January 1, 2005 through December 31, 2006 and Chairman and Chief Executive Officer of each of Lawyers Title, Commonwealth and Transnation since January 1, 2005. Mr. Chandler served as Chief Operating Officer of LandAmerica and each of Lawyers Title, Commonwealth and Transnation from July 24, 2002 to December 31, 2003. Mr. Chandler served as Senior Executive Vice President of LandAmerica and each of Lawyers Title, Commonwealth and Transnation from January 31, 2000 until July 24, 2002.

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Name	Age	Office and Experience
Ross W. Dorneman	60	Executive Vice President and Chief Administrative Officer of LandAmerica since January 1, 2007 and Executive Vice President Human Resources of LandAmerica from December 2002 through December 31, 2006. Prior to December 2002, Mr. Dorneman served as Senior Vice President and Mid Atlantic Human Resources Director of SunTrust Bank, a position he held since March 2000.
G. William Evans	52	Executive Vice President and Chief Financial Officer of LandAmerica since September 15, 1999. Mr. Evans previously served as Chief Financial Officer of each of Lawyers Title, Commonwealth and Transnation from September 15, 1999 to December 1, 2005. Mr. Evans also serves as Senior Executive Vice President each of Lawyers Title, Commonwealth and Transnation, positions he has held since December 1, 2005.
Michelle H. Gluck	47	Executive Vice President, Chief Legal Officer and Corporate Secretary of LandAmerica since January 1, 2007; Executive Vice President, General Counsel and Secretary of LandAmerica from January 1, 2004 through December 31, 2006 and Executive Vice President of each of Lawyers Title, Commonwealth and Transnation since January 1, 2004. Ms. Gluck served previously as Vice President, Associate General Counsel and Assistant Secretary of Kmart Corporation from June 2001 to September 2003.
Melissa A. Hill	50	President Residential Services since January 1, 2007 and Executive Vice President Production and Process Improvement of LandAmerica from January 1, 2004 through December 31, 2006. Ms. Hill previously served as President of LandAmerica OneStop from August 2002 to December 2003. Ms. Hill served in a variety of capacities for LandAmerica between April 2001 and August 2002.
Jeffrey C. Selby	61	President Commercial Services since January 1, 2007 and Executive Vice President Commercial Services of LandAmerica from January 1, 2004 through December 31, 2006. Mr. Selby also serves as Executive Vice President of Commonwealth and Transnation, positions held since March 25, 1999 and for Lawyers Title, a position he has held for more than five years. Mr. Selby served as Executive Vice President - Director of National Commercial Services and Manager of National Agents and Affiliates of LandAmerica from February 17, 1999 to December 31, 2003.
Christine R. Vlahcevic	44	Senior Vice President - Corporate Controller of LandAmerica since January 1, 2005. Ms. Vlahcevic also serves as Chief Financial Officer for each of Lawyers Title, Commonwealth and Transnation, positions she has held since December 1, 2005. Ms. Vlahcevic previously served as Senior Vice President Corporate Controller of each of Lawyers Title, Commonwealth and Transnation from January 1, 2005 to December 1, 2005. Ms. Vlahcevic served as Controller of Chesapeake Corporation from October 2000 to December 2004.

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Name	Age	Office and Experience
Albert V. Will	51	President Lender Services since January 1, 2007 and Executive Vice-President Lender Services from March 15, 2005 through December 31, 2006. Mr. Will previously served as President of Lincoln Abstract, LLC, a position he held from April 2004 to March 2005. Prior to April 2004, Mr. Will served as Executive Vice President, Radian Guaranty and President, Radianexpress.com of Radian Group, Inc., positions he held for more than five years.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Price of Common Stock and Dividends**

Our common stock 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 our common stock on the NYSE Composite Tape, based on published financial sources, and the cash dividends per share declared on the common stock for the calendar quarter indicated.

Year Ended December 31, 2005	Price Range		Dividends
	High	Low	
First quarter	\$ 56.04	\$ 46.50	