

LANDAMERICA FINANCIAL GROUP INC
Form 10-K
February 28, 2008
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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, 2007

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)

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Virginia
(State or other jurisdiction of
incorporation or organization)

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

5600 Cox Road

Glen Allen, Virginia
(Address of principal executive offices)

23060
(Zip Code)

(804) 267-8000

(Registrant's telephone number, including area code)

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

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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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, 2007, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1,584.6 million.

The number of shares of the registrant's common stock outstanding on February 22, 2008 was 15,351,550.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be made available to shareholders in connection with the 2008 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, prospects, 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: (1) the Company's results of operations and financial condition are susceptible to changes in mortgage interest rates, the availability of mortgage financing, and general economic conditions; (2) changes to the participants in the secondary mortgage market could affect the demand for title insurance products; (3) the Company is subject to government regulation; (4) heightened regulatory scrutiny of the Company and the title insurance industry, including any future resulting reductions in the pricing of title insurance products and services, could materially and adversely affect its business, operating results, and financial condition; (5) the Company may not be able to fuel its growth through acquisitions; (6) the Company's inability to integrate and manage successfully its acquired businesses could adversely affect its business, operating results, and financial condition; (7) 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; (8) competition in the Company's industry affects its revenue; (9) significant industry changes and new product and service introductions require timely and cost-effective responses; (10) the Company's litigation risks include substantial claims by large classes of claimants; (11) 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, (12) key accounting and essential product delivery systems are concentrated in a few locations; (13) provisions of the Company's articles of incorporation and bylaws and applicable state corporation, insurance, and banking 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; (14) the Company's future success depends on its ability to continue to attract and retain qualified employees; (15) 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 (16) various external factors including general market conditions, governmental actions, economic reports and shareholder activism may affect the trading volatility and price of the Company's common stock. 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 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.

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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) 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.

The certifications of our Chief Executive Officer and Chief Financial Officer required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are being filed as exhibits to this Form 10-K with the SEC. In addition, our Chief Executive Officer annually certifies to the New York Stock Exchange (NYSE) that he is not aware of any violation by us of the NYSE s corporate governance listing standards. In accordance with NYSE Rules, on June 14, 2007, following the 2007 Annual Meeting of shareholders, 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 operate through approximately 700 offices and a network of more than 10,000 active 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 services. 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, 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 determinations, 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).

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 combined with unallocated corporate expenses and reported in a category called Corporate and Other. Information regarding each of these operating segments is set forth below. Certain financial information regarding our operating segments is presented in Note 19 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.

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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). We also own three other title insurance underwriters: Commonwealth Land Title Insurance Company of New Jersey, Title Insurance Company of America, and United Capital Title Insurance Company. Effective December 12, 2007, we merged one of our title insurance underwriters, Land Title Insurance Company, into Lawyers Title. 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. In addition, we offer our customers international title policy services in Mexico, Canada, 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 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.

Operations

We issue title insurance policies through branch offices of our title insurance underwriters, wholly-owned or partially-owned and consolidated subsidiary agencies or independent title insurance agents. Where the policy is issued through a branch or wholly-owned subsidiary, the search is performed by us or at our direction, and the premiums collected are retained by us. Where the policy

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is issued through a partially-owned or independent title insurance agent, the agent generally performs the search (in some areas searches are performed by attorneys and in some instances agents purchase the search), 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 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 2007.

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 ascertained.

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.

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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 negative. 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 effect 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. Additionally, our senior debt is currently assigned a rating of BBB- by both S&P and Fitch. The S&P and Fitch ratings are not designed for the protection of investors, do not constitute recommendations to buy, sell or hold any security, may be subject to revision or withdrawal at any time, and should be evaluated independently of any other rating. We believe that we are sufficiently capitalized with an aggregate statutory equity of \$428.5 million as of December 31, 2007.

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. In addition, to reduce the incidence of claims losses, we established due diligence requirements in connection with the appointment of new agents, procedures for renewing existing agents, and an Agency Audit Program. 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. 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 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, 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.

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

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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 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, 2007.

Title Process Errors and Omissions Coverage

We maintain two title process errors and omissions insurance policies through Lloyd's of London totaling \$50 million. The Lloyd's of London policies provide fidelity and title loss coverage, with a \$20 million primary layer and a \$30 million excess layer. There is a \$20 million deductible for the title process errors and omissions coverage. With respect to fidelity coverage, there is a \$500 thousand deductible for employees and a \$2.5 million deductible for agents.

Title Operations Revenue

The table below sets forth, for the years ended December 31, 2007, 2006 and 2005, the approximate title operating revenue and percentages of our total title revenue for the five states representing the largest percentages of such revenue in the most recent year and for all other states and countries combined:

Revenue by State

(Dollars in millions)

	2007		2006		2005	
California	\$ 412.9	13.1%	\$ 504.2	14.4%	\$ 661.1	19.0%
Texas	391.2	12.4	388.3	11.1	353.1	10.1
New York	309.9	9.9	269.7	7.7	256.5	7.4
Florida	268.3	8.5	377.7	10.7	368.1	10.6
Pennsylvania	196.5	6.3	175.3	5.0	62.4	1.8
Other	1,566.5	49.8	1,795.0	51.1	1,780.9	51.1
Total Title Revenue	\$ 3,145.3	100.0%	\$ 3,510.2	100.0%	\$ 3,482.1	100.0%

Title operating revenue as a percentage of our total consolidated operating revenue was 88.1 percent as of December 31, 2007, 90.3 percent as of December 31, 2006, and 90.3 percent as of December 31, 2005.

Sales and Marketing

For sales and marketing purposes, we have organized our business into three customer groups: residential services, commercial 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. Our marketing strategy for the residential business focuses on maintaining and expanding these local business sources by providing superior customer service. Our commitment to customer service is supported by our Superior Service Guarantee, which provides for 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 documents by our residential customers. We also maintain a 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 operated offices and title insurance agents, we only include the offices that we directly operate in the residential services group.

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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. As part of our customer focused strategy, 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.

Agency Services We consider our network of more than 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.

Customers

As of December 31, 2007, 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 one 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 2007, our principal competitors were Fidelity National Financial, Inc., The First American Corporation, Stewart Information Services, Inc., and Old Republic International Corporation. While there are approximately 86 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 93 percent of the title insurance underwriting market in 2006, the latest date for which information is available, based on public filings made by those companies.

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 and other subsidiaries that provide settlement services 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. In addition, we have established our own internal risk limits, which are in some cases at levels lower than those permitted by state law. In determining the amount of underwriting risk we will undertake, we may spread the risk of a large underwriting liability over our three principal title underwriting subsidiaries.

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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 and the availability of mortgage financing. Periods of increasing interest rates and reduced mortgage financing availability usually have an adverse effect on residential real estate activity and therefore decrease our title insurance premiums and fee revenue. In contrast, periods of declining interest rates and good mortgage financing liquidity usually have a positive effect on residential real estate activity which increases 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 and mortgage financing availability.

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. However, because of significant decline in the availability of mortgage financing in 2007, operating revenue did not reflect the typical seasonal pattern as evidenced by sharp declines in revenue in the third and fourth quarters.

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. In such situations involving non-residential property, we require that an appropriate environmental assessment be made or have currently been 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, appraisal and valuation services, flood zone determinations, consumer mortgage credit reporting, real estate tax processing services, default management services, and mortgage loan subservicing. In 2007, 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.

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 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.

Flood Zone Determinations LandAmerica Flood Services provides 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 Federal National Mortgage Association (Fannie Mae) and Federal Home Loan and Mortgage Corporation (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.

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. Where the lender requires an escrow for the payment of taxes by borrowers during the term of the loan, we capture and report the amount of the taxes due on secured 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. Where the borrower is directly responsible for payment of property taxes, we provide an annual report to lenders on their secured property of the status of the payment of the taxes due. During the lending process, we also advise lenders whether any delinquent taxes are associated with the property in the origination process, and when the loan transfers, or goes into foreclosure.

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 in Washington, Oregon, California, Arizona, Nevada and Idaho, broker price opinions and appraisal coordination, management of properties acquired at foreclosure (REO), senior lien monitoring, junior lien analytics, field services (property inspection and preservation services) and default title and real estate settlement services. During 2007, we discontinued performing bankruptcy and lien processing services.

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 provide clients the capability to manage the entire default process from beginning to end, from collections to bankruptcy and foreclosure. BackInTheBlack transforms default servicing by replacing current home-grown, paper-based techniques with a unified problem loan underwriting solution.

Although there are numerous suppliers of mortgage origination and loan services, our largest competitors with whom we compete on the basis of price and service are The First American Corporation, Fidelity National Information Services, CBC Companies, Equifax and Kroll Factual Data, Inc.

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Subservicing LoanCare Servicing Center, Inc. (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 Dovenmuehle, Cenlar FSB, GMAC Mortgage Corporation, and Countrywide Home Loans, Inc.

The top five customers in our Lender Services segment account for approximately 32.8 percent of operating revenue.

Cyclicality and Seasonality

Portions of our Lender Services segment, particularly real estate transaction management, appraisal and valuation, flood zone determinations and consumer mortgage credit reporting, 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 increases the volume of mortgage defaults, which increases our default management business.

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.

Total deposits held by Centennial were \$564.5 million at December 31, 2007 and \$618.2 million at December 31, 2006. Certificates of deposit and passbook savings accounts represented 66.0 percent and 34.0 percent of total deposits, respectively, at December 31, 2007 and 35.9 percent and 64.1 percent of total deposits, respectively, at December 31, 2006.

Centennial had outstanding loans of \$643.1 million, or 113.9 percent of total deposits, at December 31, 2007 and \$535.5 million, or 86.6 percent of total deposits, at December 31, 2006. The average loan balance outstanding was \$0.8 million at December 31, 2007 and \$1.2 million at December 31, 2006. 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 2007 ranged in amount from \$12 thousand to \$7.7 million and \$0.3 million to \$5.3 million made or acquired during 2006. Centennial's commercial real estate loans are typically smaller in size and more tailored to fit the customer than those issued by large financial institutions that maintain minimum size requirements of \$5 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, 2007 was 7.1 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.

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

	2007	Year Ended December 31,			2003
		2006	2005	2004	
(In millions)					
Commercial, financial, and agricultural	\$	\$	\$	\$	\$ 0.1
Real estate mortgage	643.1	535.5	435.8	342.3	253.9
Installment loans to individuals			0.3	1.5	4.3
Total	\$ 643.1	\$ 535.5	\$ 436.1	\$ 343.8	\$ 258.3

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.

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.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
(Dollars in millions)					
Balance at beginning of period	\$ 4.9	\$ 4.2	\$ 3.4	\$ 2.6	\$ 2.1
Charge-offs:					
Installment loans to individuals				0.1	0.3
Total loans charged off				0.1	0.3
Recoveries:					
Installment loans to individuals					0.1
Total recoveries					0.1