FINANCIAL INSTITUTIONS INC
Form 11-K
June 28, 2005

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

FORM 11-K

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

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

Commission File Number 0-26481

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

FINANCIAL INSTITUTIONS, INC. 401(k) PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

220 Liberty Street
Warsaw, NY 14569

FINANCIAL INSTITUTIONS, INC.
401(k) PLAN

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B. Exhibits

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EX-23 Consent of Independent Registered Public Accounting Firm

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Report of Independent Registered Public Accounting Firm

The Plan Administrator
Financial Institutions, Inc. 401(k) Plan:

We have audited the accompanying statements of net assets available for benefits of Financial Institutions, Inc. 401(k) Plan as of December 31, 2004 and 2003, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements, referred to above present fairly, in all material respects, the net assets available for benefits of the Financial Institutions, Inc. 401(k) Plan as of December 31, 2004 and 2003, and the changes in net assets available for benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule H, Line 4i Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG

Buffalo, New York
June 24, 2005

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FINANCIAL INSTITUTIONS, INC.
401(k) PLAN

Statements of Net Assets Available for Benefits

December 31, 2004 and 2003

	2004	2003
Assets:		
Investments, at fair value:		
Cash and cash equivalents	$ 6,918	85,448
Mutual funds (Cost of $17,132,130 and $16,973,811 at December 31, 2004 and 2003, respectively)	20,652,589	19,214,050
Financial Institutions, Inc. common stock (Cost of $665,112 and $605,208 at December 31, 2004 and 2003, respectively)	651,326	670,519
Participant loans	453,555	372,898
Total investments	21,764,388	20,342,915
Receivables:		
Employer contribution	13,347	9,538
Participant contributions	80,935	57,746
Other	22,168	17,199
Total receivables	116,450	84,483
Net assets available for benefits	$ 21,880,838	20,427,398

See accompanying notes to financial statements.

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FINANCIAL INSTITUTIONS, INC.
401(k) PLAN

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2004 and 2003

	2004	2003
Additions:		
Additions to net assets attributed to:		
Investment income:		
Net appreciation in fair value of investments	$ 1,499,296	3,001,450
Interest from participant loans	28,439	27,187
Interest and dividends	33,440	32,599
Total investment income	1,561,175	3,061,236
Contributions and transfers:		
Transfers in from other plans	233,709	105,687
Participant	1,935,893	1,768,085
Employer	326,014	1,121,481
Total contributions and transfers	2,495,616	2,995,253
Total additions	4,056,791	6,056,489
Deductions:		
Deductions from net assets attributed to:		
Benefits paid to participants	2,603,351	881,794
Net increase	1,453,440	5,174,695
Net assets available for benefits:		
Beginning of year	20,427,398	15,252,703
End of year	$ 21,880,838	20,427,398

See accompanying notes to financial statements.

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FINANCIAL INSTITUTIONS, INC.
401(k) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

(1) Description of the Plan

The following description of the Financial Institutions, Inc. 401(k) Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan s provisions.

(a) General

The Plan is a defined contribution plan sponsored and administered by Financial Institutions, Inc. (the Company). All employees of the Company and its subsidiaries are eligible to participate in the Plan on the first of the month following the date of their employment and upon the attainment of age 20-1/2. Participants become eligible to receive the employer match following completion of one year of service, based on hire date anniversary. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Administration of the Plan is the responsibility of the Executive Committee (the Trustee) of the Company. Fidelity Investments Institutional Brokerage Group (the Custodian or Fidelity) holds the assets of the Plan and invests, controls, and disburses the funds of the Plan in accordance with the Plan agreement. The Burke Group, a subsidiary of the Company, is the recordkeeper for the Plan (party-in-interest).

(b) Contributions

Each year, participants may contribute up to 50% of pretax annual compensation, as defined in the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions and the Company s matching contributions into various investment options offered by the Plan. The Plan participants are able to select the Company s common stock as an investment option for up to 25% of their total account balance. The Company matches 25% of a participant s contributions up to the first 8% of compensation. The Company may also make additional discretionary matching contributions ($0 in 2004 and $810,842 in 2003). Contributions are subject to certain limitations.

(c) Participant Accounts

Each participant s account is credited with the participant s contributions, the Company s matching contributions, and all earnings or losses (realized or unrealized) thereon.

(d) Vesting

Company and participant contributions are fully vested at the time of contribution. Earnings are also immediately vested.

(e) Payment of Benefits

The participant s account balance will be distributed upon termination of employment due to separation from service, retirement, disability, or death, or upon financial hardship as defined in the Internal Revenue Code (IRC) and are recorded by the Plan when paid.

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FINANCIAL INSTITUTIONS, INC.
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Notes to Financial Statements

December 31, 2004 and 2003

When a participant terminates employment, the participant may elect to receive benefits in a lump-sum distribution or a deferred annuity. If the participant s account attributable to Company contributions is $5,000 or less, the form of the distribution is at the discretion of the Plan administrator.

Withdrawal of an active employee s before-tax contributions prior to a participant reaching age 59-1/2 may only be made on account of financial hardship as determined by the Trustee.

(f) Participant Loans

Participants may borrow from their accounts up to a maximum amount equal to the lesser of $50,000 or 50% of their account balances. Loan terms must have a definite repayment period not to exceed five years unless the loan is used for the purchase of a principal residence, in which case the repayment period may not exceed 15 years. The loans are secured by the participant s account and bear interest at 2% above the prime rate at the time of the loan origination, currently ranging from 6% to 11.5%. Principal and interest are paid ratably through after-tax payroll deductions.

(g) Plan Expenses

Expenses related to the administration and investment activity of the Plan are borne by the Company, at its discretion, and are therefore not reflected in the accompanying financial statements.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America. In preparing these financial statements, the plan administrator has made a number of estimates and assumptions relating to the reporting of net assets available for benefits and changes therein. Actual results may differ from those estimates. Reclassifications are made whenever necessary to conform with the current year presentation.

(b) Investments

All contributions made to the Plan may be invested in one or more investment options. The investments are carried at fair value. Participant loans are carried at their outstanding balances, which approximate fair value. Transactions are accounted for on a trade date basis. Investment income includes interest, dividends and realized and unrealized gains and losses applicable to the plan shares in the funds. The Plan presents in the statement of changes in net assets available for plan benefits the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses and the unrealized appreciation or depreciation on these investments during the year.

The investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the near term would materially

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FINANCIAL INSTITUTIONS, INC.
401(k) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

effect participants account balances and the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

(c) Participant Loans Payment of Benefits

Any unpaid loan balance at the time a participant withdraws from the Plan is presented as a benefit paid to participants on the statement of changes in net assets available for benefits. All other benefits are recorded when paid.

(3) Investments

The following presents investments that represent 5% or more of the Plan s net assets as of December 31, 2004 and 2003:

	2004	2003
Federated Capital Preservation Fund	$ 4,631,632	4,866,982
Fidelity Equity Income Fund	2,029,975	1,845,361
Franklin Capital Growth Fund	2,066,650	2,229,023
Gabelli Westwood Balanced Retail Fund	1,217,241	1,064,859
Oppenheimer Global A Fund	1,291,812	N/A
Pimco Total Return Administrative Fund	1,469,256	1,262,726
Waddell & Reed Accumulative Y Fund	1,349,315	1,463,711
Wasatch Small Cap Growth Fund	1,759,891	1,452,189

Net appreciation in fair value of investments for the years ended December 31, 2004 and 2003 are as follows:

	2004	2003
Mutual funds	$ 1,401,405	2,984,704
Financial Institutions Inc., common stock	97,891	16,746
	$ 1,499,296	3,001,450

(4) Reconciliation of Employee Benefit Plan (Form 5500) to Statements of Net Assets Available for Benefits and Changes in Net Assets Available for Benefits

The following is a reconciliation of net assets as reported on the statements of net assets available for benefits to Form 5500s as of December 31, 2004 and 2003:

	2004	2003
Net assets available for benefits	$ 21,880,838	$ 20,427,398
Distributions payable included on Form 5500		(67,464)

Net assets as reported on line 1(L) of Form 5500 (Schedule H)	$ 21,880,838	$ 20,359,934

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FINANCIAL INSTITUTIONS, INC.
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Notes to Financial Statements

December 31, 2004 and 2003

The following is a reconciliation of distributions to participants as reported on the statements of changes in net assets available for benefits to Form 5500 for the years ended December 31, 2004 and 2003:

	2004	2003
Distributions to participants per the financial statements	$ 2,603,351	$ 881,794
Add distribution payable at current year-end		67,464
Subtract distribution payable at prior year-end	(67,464)	
Distributions to participants per Form 5500	$ 2,535,887	$ 949,258

(5) Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will receive their account balances.

(6) Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated March 28, 2000, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

(7) Related-Party Transactions

Certain plan investments are mutual funds and cash managed by Fidelity, which totaled $20,659,507 and $19,299,498 at December 31, 2004 and 2003, respectively. Fidelity is the custodian as defined by the Plan and, therefore, transactions in these funds qualify as party-in-interest transactions. Certain plan investments, totaling $651,326 and $670,519 at December 31, 2004 and 2003, respectively are the common stock of the Company, therefore, transactions in this common stock qualify as party-in-interest transactions. The Burke Group, a subsidiary of the Company, is the Plan record-keeper (party-in-interest). The Company pays all costs related to these services. Participant loans, totaling $453,555 and $372,898 at December 31, 2004 and 2003, respectively are also considered party-in-interest transactions.

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Schedule 1

FINANCIAL INSTITUTIONS, INC.
401(k) PLAN

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

December 31, 2004

(a)	(b) Identity of issuer, borrower, lessor, or similar party	(c) Description of investment, including maturity date, rate of interest, collateral, and par, or maturity value	(d) Current value
	Federated Capital Preservation Fund	Mutual fund	$ 4,631,632
*	Fidelity Contrafund	Mutual fund	678,075
*	Fidelity Equity Income Fund	Mutual fund	2,029,975
*	Fidelity Diversified International Fund	Mutual fund	453,336
*	Fidelity Spartan 500 Index Fund	Mutual fund	742,625
*	Fidelity Spartan Extended Market Index Fund	Mutual fund	244,443
*	Fidelity Spartan Money Market Fund	Mutual fund	495,661
	Franklin Capital Growth Fund	Mutual fund	2,066,650
	Gabelli Westwood Balanced Retail Fund	Mutual fund	1,217,241
	Janus Mercury Fund	Mutual fund	830,089
	Oppenheimer Capital Appreciation Fund	Mutual fund	289,864
	Oppenheimer Global A Fund	Mutual fund	1,291,812
	Pimco Total Return Administrative Fund	Mutual fund	1,469,256
	Van Kampen Comstock A Fund	Mutual fund	496,561
	Van Kampen Equity Income Fund	Mutual fund	606,163
	Waddell & Reed Accumulative Y Fund	Mutual fund	1,349,315
	Wasatch Small Cap Growth Fund	Mutual fund	1,759,891
*	Fidelity Cash Reserves-Uninvested Cash	Mutual fund	6,918
*	Financial Institutions, Inc. Company Stock	Common stock	651,326
*	Participant loans	6.00% 11.5%, due 2005 through 2019	453,555
			$ 21,764,388

* Party-in-interest transaction.
See accompanying independent auditors report.

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SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

FINANCIAL INSTITUTIONS, INC. 401(k) PLAN

Date: June 28, 2005

/s/ Peter G. Humphrey

Peter G. Humphrey
President and Chief Executive Officer

ed technology platform on which to deliver title and real estate-related services through its LandAmerica OneStop operations. Revenues The Company's operating revenues, consisting of premiums, title search, escrow and other fees, are dependent on overall levels of real estate and mortgage refinance activity, which are influenced by a number of factors including interest rates and the general state of the economy. In addition, the Company's revenues are affected by the Company's sales and marketing efforts and its strategic decisions based on the rate structure and claims environment in particular markets. Premiums and fees are determined both by competition and by state regulation. Operating revenues from direct title operations are recognized at the time real estate transactions close, which is generally 60 to 90 days after the opening of a title order. Operating revenues from agents are recognized when the issuance of a policy is reported to the Company by an agent. Although agents generally report the issuance of policies on a monthly basis, heightened levels of real estate activity may slow this reporting process. This typically results in delays averaging 90 days from the closing of real estate transactions until the recognition of revenues from agents. As a result, there can be a significant lag between changes in general real estate activity and their impact on the portion of the Company's revenues attributable to agents. In addition to the premiums and related fees, the Company earns investment income from its investment portfolio of primarily fixed-maturity securities. Investment income includes dividends and interest as well as realized capital gains or losses on the portfolio. The Company regularly reexamines its portfolio strategies in light of changing earnings or tax situations. Factors Affecting Profit Margins and Pre-Tax Profits The Company's profit margins are affected by several factors, including the volume of real estate and mortgage refinance activity, policy amount and the nature of real estate transactions. Volume is an important determinant of profitability because the Company, like any other title insurance company, has a significant level of fixed costs arising from personnel, occupancy costs and maintenance of title plants. Because premiums are based on the face amount of the policy, larger policies generate higher premiums although expenses of issuance do not necessarily increase in proportion to policy size. Cancellations affect profitability because costs incurred both in opening and in processing orders typically are not offset by fees. Commercial transactions tend to be more profitable than residential transactions. -22- The Company's largest expense is commissions paid to independent agents. The Company regularly reviews the profitability of its agents, adjusting commission levels or cancelling certain agents where profitability objectives are not being met and expanding operations where acceptable levels of profitability are available. The Company continually monitors its expense ratio, which is the sum of salaries and employee benefits, agency commissions and other expenses (exclusive of interest, goodwill, exit and termination costs and write off of intangibles) expressed as a percentage of operating revenues. Claims Generally, title insurance claim rates are lower than other types of insurance because title insurance policies insure against prior events affecting the quality of real estate titles, rather than against unforeseen, and therefore less predictable, future events. A provision is made for estimated future claim payments at the time revenue is recognized. Both the Company's experience and industry data indicate that claims activity occurs for more than 20 years after the policy is issued. Management uses actuarial techniques to estimate future claims by analyzing past claim payment patterns. Independent actuaries review the adequacy of reserves on an interim basis and certify as to their adequacy on an annual basis. Management has continued to emphasize and strengthen claims prevention and product quality programs. Seasonality Historically, residential real estate activity has been generally slower in the winter, when fewer families buy or sell homes, with increased volumes in the spring and summer. Residential refinancing activity is generally more uniform throughout the seasons but is highly subject to changes in interest rates. The Company typically reports its lowest revenues in the first quarter, with revenues increasing into the second quarter and through the third quarter. The fourth quarter customarily may be as strong as the third quarter, depending on the level of activity in the commercial real estate market. In 1998 and 1999, the typical seasonality of the title insurance business was influenced by changes in the levels of refinancing activity. For additional information, see "Item 1 - Business - Cyclicality and Seasonality." Contingencies For a discussion of pending legal proceedings, see "Item 3 - Legal Proceedings." Results of Operations Comparison of Years Ended December 31, 2000, December 31, 1999 and December 31, 1998 Net Income The Company reported a net loss of $80.8 million or $6.60 per share on a diluted basis for 2000 compared to net income of $54.3 million or $2.79 per share on a diluted basis in 1999 and net income of $93.0 million or $5.05 per share on a diluted basis in 1998. Exclusive of a one-time write off of intangibles (discussed below) and exit and termination costs, net income was $35.5 million or $1.94 per diluted share in 2000. Exclusive of exit and termination costs net income was $100.5 million or $5.46 per share in 1998. -23- Operating Revenues Operating revenues reported for 2000 were $1.8 billion compared to $2.0 billion in 1999 and $1.8 billion in 1998. Due to the higher interest rate environment during most of the year, the Company experienced lower revenue levels in 2000 than in 1999. In 1999, the decrease in direct revenues was offset by an increase in agency revenues, principally the result of the timing effects of the industry's typical time lag in business reported through independent agents. In addition to the inclusion of Commonwealth and Transnation revenues in 1998, the volume in 1998 was a result of increased residential and commercial resale and refinancing transactions, the favorable interest rate environment and the general health of the national real estate markets. During 2000 order volume in direct company offices decreased to 680,000 from 833,600 in 1999 which was a decrease from 1,041,500 in 1998. These decreases were a result of the effect on the residential mortgage markets of interest rate increases in both 2000 and 1999. Investment Income The Company reported pre-tax investment income of $51.1 million, $48.0 million and $49.3 million in 2000, 1999 and 1998, respectively. Excluding capital gains and losses, investment income was $51.4 million, $49.6 million and $46.5 million in 2000, 1999 and 1998, respectively. The Company's investment portfolio consists of primarily fixed maturity securities whose income includes dividends and interest as well as realized gains and losses. Expenses Operating Expenses. The Company's expense ratio was 94.3% in 2000 compared to 92.2% in 1999 and 87.6% in 1998. The increase in the expense ratio in 2000 compared to 1999 is primarily due to the effect of significant revenue changes measured against costs that do not vary as rapidly. The increase in the expense ratio in 1999 compared to 1998 resulted from an increase in the amount of agency commissions as the mix of revenues shifted from direct operations to independent agents. Exit and Termination Costs. Exit and termination costs on a pre-tax basis of approximately $3.1 million and $11.5 million were incurred in 2000 and 1998, respectively, in connection with the Primis acquisition and the formation of a title plant management joint venture in 2000 and the Commonwealth and Transnation acquisition in 1998. No such costs were incurred in 1999. Write Off of Intangibles. In the fourth quarter of 2000, the Company elected to change its accounting policy for assessing the recoverability of goodwill from one based on undiscounted cash flows to one based on discounted cash flows. The Company believes that using the discounted cash flow approach to assess recoverability is a preferable policy as it is consistent with the methodology used by the Company to evaluate investment and acquisition decisions (see Note 2 to Consolidated Financial Statements). In connection with this change, the Company incurred a non-cash pre-tax charge of $172.5 million. No such costs were incurred in 1999 or 1998. Salaries and Employee Benefits. Personnel-related expenses are a significant portion of total operating expenses in the title insurance industry. These expenses require intensive management through changing real estate cycles. As a percentage of gross title revenues, salary and related expenses were 29.4%, 28.1% and 29.3% in 2000, 1999 and 1998, respectively. Staffing levels have steadily decreased to 7,800, exclusive of the Primis acquisition, by December 2000 as compared to 8,500 and 10,500 in December of 1999 and 1998, respectively. -24- Agents' Commissions. Commissions paid to title insurance agents are the largest single expense incurred by the Company. The commission rate varies by geographic area in which the commission was earned. Commissions as a percentage of agency revenue were 78.3% in 2000, 77.8% in 1999 and 77.6% in 1998. General, Administrative and Other Expenses. The most significant components of other expenses are outside costs of title production, rent for office space, communications, travel and taxes levied by states on premiums. Provision for Policy and Contract Claims. The Company's claims experience has shown improvement in recent years. The loss ratio (the provision for policy and contract claims as a percentage of operating revenues) was 4.4%, 4.9% and 5.2% in 2000, 1999 and 1998, respectively. Claims paid as a percentage of operating revenues were 4.3%, 3.2% and 2.8% in 2000, 1999 and 1998, respectively. Income Taxes The Company pays U.S. federal and state income taxes based on laws in the jurisdictions in which it operates. The effective tax rates reflected in the income statement for 2000, 1999 and 1998 differ from the U.S. federal statutory rate principally due to non-taxable interest, dividend deductions, travel and entertainment and company-owned life insurance. At December 31, 2000 the Company had recorded gross deferred tax assets of $153.7 million related primarily to policy and contract claims, the write off of intangibles (see Note 2 to Consolidated Financial Statements) and employee benefit plans. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefit, or that future deductibility is uncertain. The Company recorded a valuation allowance of $1.7 million and $11.5 million at December 31, 2000 and 1999, respectively, related to deferred tax assets created by the unrealized losses associated with the company's investment portfolio. No valuation allowance was recorded at December 31, 1998. The Company reassesses the realization of deferred assets quarterly and, if necessary, adjusts its valuation allowance accordingly. Liquidity and Capital Resources Cash provided by operating activities for the years ended December 31, 2000, 1999 and 1998 was $82.6 million, $97.6 million and $165.1 million, respectively. As of December 31, 2000, the Company held cash and invested cash of $123.4 million and fixed-maturity securities of $796.8 million. In 1999, the Board of Directors approved plans to repurchase 2.0 million of the Company's issued and outstanding common shares. By December 31, 1999, the Company had repurchased 1.7 million of such shares at a cost of $43.4 million. The additional authorized repurchases of 0.3 million shares were completed in the first quarter of 2000 at a cost of $4.9 million. Repurchases were funded from available corporate funds. During February and March 2001, 2.0 million shares of the Company's preferred stock were converted to common stock. This conversion will decrease the amount of preferred dividends paid by $7.1 million on an annual basis. The new common shares will require dividends of the same rate paid on all other outstanding common shares. -25- In view of the historical ability of the Company to generate strong, positive cash flows, and the strong cash position and relatively conservative capitalization structure of the Company, management believes that the Company will have sufficient liquidity and adequate capital resources to meet both its short- and long-term capital needs. In addition, the Company has $42.0 million available under a credit facility which was unused at December 31, 2000. Interest Rate Risk The following table provides information about the Company's financial instruments that are sensitive to changes in interest rates. For investment securities, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. Actual cash flows could differ from the expected amounts. Interest Rate Sensitivity Principal Amount by Expected Maturity Average Interest Rate -------------------- (dollars in thousands) 2006 and Fair 2001 2002 2003 2004 2005 after Total Value ---- ---- ---- ---- ---- ----- ----- ----- Assets: Taxable available-for-sale securities: Book value $21,534 $36,217 $46,942 $31,799 $44,467 $299,738 $469,596 $466,548 Average yield 6.4% 6.2% 6.1% 7.3% 7.1% 7.1% 6.9% Non-taxable available-for-sale securities: Book value 1,320 5,899 15,653 20,796 29,616 199,525 272,809 276,843 Average yield 4.4% 4.6% 5.0% 4.8% 4.5% 5.1% 5.0% Preferred stock: Book value - - - - - 58,099 58,099 53,451 Average yield - - - - - 7.4% 7.4% The Company also has long-term debt of $195.5 million bearing interest at 6.69% at December 31, 2000. A 0.25% change in the interest rate would affect income before income taxes by approximately $0.5 million annually. Forward-Looking and Cautionary Statements Certain information contained in this Annual Report on Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Among other things, these statements relate to the financial condition, results of operation and business of the Company. In addition, the Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in other filings with the Securities and Exchange Commission and in its reports to shareholders. These forward-looking statements are generally identified by phrases such as "the Company expects," "the Company believes" or words of similar import. These forward-looking statements involve certain risks and uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Further, any such statement is specifically qualified in its entirety by the following cautionary statements. -26- In connection with the title insurance industry in general, factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include the following: (i) the costs of producing title evidence are relatively high, whereas premium revenues are subject to regulatory and competitive restraints; (ii) real estate activity levels have historically been cyclical and are influenced by such factors as interest rates and the condition of the overall economy; (iii) the value of the Company's investment portfolio is subject to fluctuation based on similar factors; (iv) the title insurance industry may be exposed to substantial claims by large classes of claimants and (v) the industry is regulated by state laws that require the maintenance of minimum levels of capital and surplus and that restrict the amount of dividends that may be paid by the Company's insurance subsidiaries without prior regulatory approval. The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company. ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The information required by this Item is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk" in Item 7 of this report. ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA The response to this Item is submitted in a separate section of this report. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE There have been no changes in the Company's independent accountants and no disagreements on accounting and financial disclosure that are required to be reported hereunder. -27- PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT Except as to certain information regarding executive officers included in Part I, the definitive proxy statement for the 2001 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year is incorporated herein by reference for the information required by this item. ITEM 11. EXECUTIVE COMPENSATION The definitive proxy statement for the 2001 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year is incorporated herein by reference for the information required by this item. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The definitive proxy statement for the 2001 Annual meeting of Shareholders to be filed within 120 days after the end of the last fiscal year is incorporated herein by reference for the information required by this item. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The definitive proxy statement for the 2001 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year is incorporated herein by reference for the information required by this item. -28- PART IV ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (a) (1), (2) and (3). The response to this portion of Item 14 is submitted as a separate section of this report. (b) Reports on Form 8-K None. (c) Exhibits - The response to this portion of Item 14 is submitted as a separate section of this report. (d) Financial Statement Schedules - The response to this portion of Item 14 is submitted as a separate section of this report. -29- SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. LANDAMERICA FINANCIAL GROUP, INC. By: /s/ Charles H. Foster, Jr. ----------------------------------- Charles H. Foster, Jr. March 28, 2001 Chairman and Chief Executive Officer Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Signature Title Date --------- ----- ---- /s/ Charles H. Foster, Jr. Chairman and Chief Executive March 28, 2001 -- Officer and Director Charles H. Foster, Jr. (Principal Executive Officer) /s/ Janet A. Alpert President and Director March 28, 2001 -- Janet A. Alpert /s/ Theodore L. Chandler, Jr. Senior Executive Vice President and March 28, 2001 -- Director Theodore L. Chandler, Jr. /s/ G. William Evans Executive Vice President and March 28, 2001 -- Chief Financial Officer G. William Evans (Principal Financial Officer) /s/ John R. Blanchard Senior Vice President - Corporate March 28, 2001 -- Controller John R. Blanchard (Principal Accounting Officer) /s/ Michael Dinkins Director March 28, 2001 -- Michael Dinkins -30- Signature Title Date --------- ----- ---- /s/ James Ermer Director March 28, 2001 -- James Ermer /s/ John P. McCann Director March 28, 2001 -- John P. McCann /s/ Robert F. Norfleet, Jr. Director March 28, 2001 -- Robert F. Norfleet, Jr. /s/ Julious P. Smith, Jr. Director March 28, 2001 -- Julious P. Smith, Jr. /s/ Eugene P. Trani Director March 28, 2001 -- Eugene P. Trani /s/ Marshall B. Wishnack Director March 28, 2001

-- Marshall B. Wishnack -31- ANNUAL REPORT ON FORM 10-K ITEM 8, ITEMS 14 (a)(1), (2) AND (3), (c) AND (d) INDEX OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA FINANCIAL STATEMENT SCHEDULES CERTAIN EXHIBITS YEAR ENDED DECEMBER 31, 2000 LANDAMERICA FINANCIAL GROUP, INC. RICHMOND, VIRGINIA -32- FORM 10-K ITEM 14 (a)(1), (2) AND (3) LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES The following consolidated financial statements of LandAmerica Financial Group, Inc. and subsidiaries are included in Item 8: Page ---- The following consolidated financial statement schedules of LandAmerica Financial Group, Inc. and subsidiaries are included in Item 14(d): All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore, have been omitted. -33- REPORT OF INDEPENDENT AUDITORS ----------------------------- The Board of Directors and Shareholders LandAmerica Financial Group, Inc. We have audited the accompanying consolidated balance sheets of LandAmerica Financial Group, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LandAmerica Financial Group, Inc. and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein. As discussed in Note 2 to the financial statements, in 2000 the Company changed its method for assessing the recoverability of goodwill. /s/ ERNST & YOUNG LLP Richmond, Virginia March 9, 2001 F-1 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- CONSOLIDATED BALANCE SHEETS, DECEMBER 31 -------------------------------------- (In thousands of dollars) ASSETS 2000 1999 ------ ---- ---- INVESTMENTS (Note 3): Fixed maturities available-for-sale - at fair value (amortized cost: 2000 - $800,504; 1999 - $764,748) $ 796,842 $ 735,084 Equity securities - at fair value (cost: 2000 - $4,285; 1999 - $3,278) 3,235 1,807 Mortgage loans (less allowance for doubtful accounts: 2000 - $139; 1999 - $138) 9,652 7,124 Invested cash 80,976 109,045 ------------- ------------ Total Investments 890,705 853,060 CASH 42,375 54,939 NOTES AND ACCOUNTS RECEIVABLE: Notes (less allowance for doubtful accounts: 2000 - $2,230; 1999 - $2,026) 11,011 12,701 Premiums (less allowance for doubtful accounts: 2000 - $9,945; 1999 - $9,525) 36,857 35,542 Income tax recoverable 4,479 4,256 ------------- ------------- Total Notes and Accounts Receivable 52,347 52,499 PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2000 - $92,715; 1999 - $81,907) 61,599 72,661 TITLE PLANTS 91,609 93,608 GOODWILL (less accumulated amortization: 2000 - $32,072; 1999 - $33,208) 217,425 347,158 DEFERRED INCOME TAXES (Note 8) 139,006 80,980 OTHER ASSETS 123,891 103,016 ------------ ------------ Total Assets $ 1,618,957 $ 1,657,921 =============

============ F-2 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- CONSOLIDATED BALANCE SHEETS, DECEMBER 31 ------------------------------------- (In thousands of dollars) LIABILITIES 2000 1999 ----------- ---- ---- POLICY AND CONTRACT CLAIMS (Note 4) $ 556,798 $ 554,450 ACCOUNTS PAYABLE AND ACCRUED EXPENSES 178,681 150,408 NOTES PAYABLE (Note 12) 202,379 207,653 OTHER 16,999 14,707 -------------- -------------- Total Liabilities 954,857 927,218 -------------- -------------- COMMITMENTS AND CONTINGENCIES (Notes 11 and 13) SHAREHOLDERS' EQUITY (Notes 6 and 7) ------------------- Preferred stock, no par value, authorized 5,000,000 shares, no shares of Series A Junior Participating Preferred Stock issued or outstanding; 2,200,000 shares of 7% Series B Cumulative Convertible Preferred Stock issued and outstanding in 2000 and 1999 175,700 175,700 Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2000 - 13,518,319; 1999 - 13,680,421 340,269 342,138 Accumulated other comprehensive loss (4,712) (31,135) Retained earnings 152,843 244,000 -------------- -------------- Total Shareholders' Equity 664,100 730,703 -------------- -------------- Total Liabilities and Shareholders' Equity $ 1,618,957 $ 1,657,921 ============== ============== See Notes to Consolidated Financial Statements. F-3 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31 ---------------------- (In thousands of dollars except per common share amounts) 2000 1999 1998 ---- ---- ---- REVENUES Title and other operating revenues: Direct operations $ 764,133 $ 853,989 $ 880,689 Agency operations 987,137 1,146,025 918,845 ------------- ------------- ------------- 1,751,270 2,000,014 1,799,534 Investment income (Note 3) 51,406 49,578 46,519 (Loss) gain on sales of investments (271) (1,579) 2,817 ------------- ------------- ------------- 1,802,405 2,048,013 1,848,870 EXPENSES (Notes 2, 4, 10, 11 and 12) Salaries and employee benefits 515,329 561,744 527,827 Agents' commissions 772,939 891,928 712,933 Provision for policy and contract claims 76,889 97,014 93,563 Exit and termination costs 3,079 - 11,517 Write off of intangibles 177,774 - - Interest expense 13,614 12,068 10,659 General, administrative and other 370,918 400,389 346,069 ------------- ------------- ------------- 1,930,542 1,963,143 1,702,568 ------------- ------------- ------------- (LOSS) INCOME BEFORE INCOME TAXES (128,137) 84,870 146,302 INCOME TAX EXPENSE (BENEFIT) (Note 8) Current 8,871 24,317 54,715 Deferred (56,242) 6,236 (1,441) ------------- ------------- ------------- (47,371) 30,553 53,274 ------------- ------------- ------------- NET (LOSS) INCOME (80,766) 54,317 93,028 DIVIDENDS - PREFERRED STOCK (7,700) (7,700) (6,502) ------------- ------------- ------------- NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS $ (88,466) $ 46,617 $ 86,526 ============= ============= ============= NET (LOSS) INCOME PER COMMON SHARE $(6.60) $3.21 $6.13 WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING 13,397 14,532 14,120 NET (LOSS) INCOME PER COMMON SHARE ASSUMING DILUTION $(6.60) $2.79 $5.05 WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION 13,397 19,503 18,421 See Notes to Consolidated Financial Statements. F-4 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31 ---------------------- (In thousands of dollars) 2000 1999 1998 ---- ---- ---- Cash flows from operating activities: Net (loss) income $ (80,766) $ 54,317 $ 93,028 Depreciation and amortization 35,818 35,463 25,757 Amortization of bond premium 1,992 1,773 960 Write off of intangibles (Note 2) 177,774 - - Realized investment losses (gains) 271 1,579 (2,817) Deferred income tax (56,242) 6,236 (1,441) Change in assets and liabilities, net of businesses acquired: Notes receivable 1,690 (5,361) (1,429) Premiums receivable (1,181) 25,661 (222) Income taxes receivable/payable (223) (5,097) 553 Policy and contract claims 2,348 32,556 43,305 Accounts payable and accrued expenses 13,816 (31,044) 5,395 Cash surrender value of life insurance (4,096) (7,158) (1,889) Other (8,581) (11,326) 3,905 ---------- ---------- ---------- Net cash provided by operating activities 82,620 97,599 165,105 ---------- ---------- ---------- Cash flows from investing activities: Purchase of property and equipment, net (14,117) (62,711) (47,796) Proceeds from sale-leaseback of furniture and equipment (Note 10) 5,996 24,932 - Purchase of business, net of cash acquired (Note 14) (48,230) (11,570) (126,346) Cost of investments acquired: Fixed maturities - available-for-sale (263,837) (553,945) (250,189) Equity securities (1,008) - (1,506) Mortgage loans (2,528) - (1,026) Proceeds from investment sales or maturities: Fixed maturities - available-for-sale 225,686 542,453 144,407 Equity securities - 150 - Mortgage loans - 4,489 - ---------- ---------- ---------- Net cash used in investing activities (98,038) (56,202) (282,456) ---------- ----------- ---------- Cash flows from financing activities: Proceeds from the exercise of options 3,037 2,712 81,833 Cost of common shares repurchased (4,906) (43,402) - Repayment of cash surrender value loan - - (1,517) Dividends paid (10,391) (10,611) (9,536)

Proceeds from issuance of notes payable - - 207,500 Payments on notes payable (12,955) (139) (56,951) ---------- ---------- ---------- Net cash (used in) provided by financing activities (25,215) (51,440) 221,329 ---------- ---------- ---------- Net (decrease) increase in cash and invested cash (40,633) (10,043) 103,978 Cash and invested cash at beginning of year 163,984 174,027 70,049 ---------- ---------- ---------- Cash and invested cash at end of year $ 123,351 $ 163,984 $ 174,027 ========== ========== ========== See Notes to Consolidated Financial Statements. F-5 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 --- (In thousands of dollars except per common share amounts) Accumulated Other Total Preferred Stock Common Stock Comprehensive Retained Shareholders' Shares Amounts Shares Amounts Income Earnings Equity ------ ------- ------ ------- ----- -------- ------ Balance - December 31, 1997 - $ - 8,964,633 $ 168,066 $ 7,536 $ 116,802 $ 292,404 Comprehensive income Net income - - - - - 93,028 93,028 Other comprehensive income, net of tax $2,601 Net unrealized gains on securities (Note 6) - - - - 4,831 - 4,831 --------- Comprehensive income 97,859 --------- Common and preferred stock issued 2,200,000 175,700 6,093,546 208,797 - - 384,497 Stock options and incentive plans - - 236,393 5,965 - - 5,965 Preferred dividends (7%) - - - - - (6,502) (6,502) Common dividends ($0.20/share) - - - - - (3,034) (3,034) --------- -------- ---------- --------- -------- --------- --------- Balance - December 31, 1998 2,200,000 175,700 15,294,572 382,828 12,367 200,294 771,189 Comprehensive income Net income - - - - - 54,317 54,317 Other comprehensive income, net of tax $6,659 Net unrealized losses on securities (Note 6) - - - - (43,502) - (43,502) --------- Comprehensive income 10,815 --------- Common stock retired - - (1,712,700) (43,402) - - (43,402) Stock options and incentive plans - - 98,549 2,712 - - 2,712 Preferred dividends (7%) - - - - - (7,700) (7,700) Common dividends ($0.20/share) - - - - - (2,911) (2,911) --------- -------- ---------- --------- -------- --------- --------- Balance - December 31, 1999 2,200,000 175,700 13,680,421 342,138 (31,135) 244,000 730,703 Comprehensive income Net (loss) income - - - - - (80,766) (80,766) Other comprehensive income Net unrealized gains on securities (Note 6) - - - - 26,423 - 26,423 --------- Comprehensive income (54,343) --------- Common stock retired - - (287,300) (4,906) - - (4,906) Stock options and incentive plans - - 125,198 3,037 - - 3,037 Preferred dividends (7%) - - - - - (7,700) (7,700) Common dividends ($0.20/share) - - - - - (2,691) (2,691) --------- -------- ---------- --------- -------- --------- --------- Balance - December 31, 2000 2,200,000 $175,700 13,518,319 $ 340,269 $ (4,712) $ 152,843 $ 664,100 ========= ======== ========= ========= ======== ========= ========= See Notes to Consolidated Financial Statements. F-6 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 --- (In thousands of dollars except per common share amounts) 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Basis of Presentation -------------------- The accompanying consolidated financial statements of LandAmerica Financial Group, Inc. (the "Company") and its wholly owned subsidiaries have been prepared in conformity with accounting principles generally accepted in the United States which differ from statutory accounting practices prescribed or permitted by regulatory authorities for the insurance company subsidiaries. Organization ------------ The Company is engaged principally in the title insurance business. Title insurance policies are insured statements of the condition of title to real property, showing ownership as indicated by public records, as well as outstanding liens, encumbrances and other matters of record and certain other matters not of public record. The Company's business results from commercial real estate activity, resales and refinancings of residential real estate and construction and sale of new housing. The Company conducts its business on a national basis through a network of branch and agency offices with approximately 41% of consolidated title revenues generated in the states of Texas, Florida, California and Pennsylvania. The Company manages its business and reports its financial information as one segment. Use of Estimates ---------------- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Principles of Consolidation -------------------------- The accompanying consolidated financial statements include the accounts and operations, after intercompany eliminations, of LandAmerica Financial Group, Inc., and its wholly owned subsidiaries, principally Commonwealth Land Title Insurance Company, Lawyers Title Insurance Corporation and Transnation Title Insurance Company. Investments ----------- The Company records its fixed-maturity investments which are classified as available-for-sale at fair value and reports the change in the unrealized appreciation and depreciation as a separate component of shareholders' equity. The amortized cost of fixed-maturity investments classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts. That amortization or accretion is included in net investment income. F-7 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued) Realized gains and losses on sales of investments, and declines in value considered to be other than temporary, are recognized in operations on the specific identification basis. For the mortgage-backed bond portion of the fixed maturity securities portfolio, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the security is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the security. That adjustment is included in net investment income. Title Plants ------------ Title plants consist of title records relating to a particular region and are generally stated at cost. Expenses associated with current maintenance, such as salaries and supplies, are charged to expense in the year incurred. The costs of acquired title plants and the building of new title plants, prior to the time that a plant is put into operation, are capitalized. Properly maintained title plants are not amortized because there is no indication of diminution in their value. Goodwill -------- The excess of cost over fair value of net assets of businesses acquired (goodwill) is amortized on a straight line basis over its estimated useful life, principally over a forty year period. As more fully described in Note 2, during the fourth quarter of 2000 the Company changed its method for assessing the recoverability of goodwill not associated with impaired assets from an undiscounted cash flow approach to a discounted cash flow approach. Long-Lived Assets ---------------- The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indicators of impairment are present, the Company estimates the future cash flows expected to be generated from the use of those assets and their eventual disposal. The Company would recognize an impairment loss if the future cash flows were less than the carrying amount. Depreciation ------------ Property and equipment is depreciated principally on the straight-line method over the useful lives of the various assets, which range from three to 40 years. F-8 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued) Revenue Recognition ------------------- Premiums on title insurance written by the Company's employees are recognized as revenue when the Company is legally or contractually entitled to collect the premium. Premiums on insurance written by agents are generally recognized when reported by the agent and recorded on a "gross" versus "net" basis. Title search and escrow fees are recorded as revenue when an order is closed. Policy and Contract Claims ------------------------- Liabilities for estimated losses and loss adjustment expenses represent the estimated ultimate net cost of all reported and unreported losses incurred through December 31, 2000. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Title insurance reserve estimates are subject to a significant degree of inherent variability due to the effects of external factors such as general economic conditions. Although management believes that the reserve for policy and contract claims is reasonable, it is possible that the Company's actual incurred policy and contract claims will not conform to the assumptions inherent in the determination of these reserves. Accordingly, the ultimate settlement of policy and contract claims may vary significantly from the estimates included in the Company's financial statements. Management believes that the reserves for losses and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. Income Taxes ------------ Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Future tax benefits are recognized to the extent that realization of such benefits are more likely than not. Escrow and Trust Deposits ------------------------ As a service to its customers, the Company administers escrow and trust deposits which amounted to approximately $1,169,499 and $1,462,420 at December 31, 2000 and 1999, respectively, representing undisbursed amounts received for settlements of mortgage loans and indemnities against specific title risks. These funds are not considered assets of the Company and, therefore, are excluded from the accompanying consolidated balance sheets. F-9 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 --- (In thousands of dollars except per common share amounts) 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued) Deferred Land Exchanges ---------------------- Through several non-insurance subsidiaries the Company facilitates tax-free property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code. Acting as a qualified intermediary, the Company holds the proceeds from sales transactions until a qualifying acquisition occurs, thereby assisting its customers in deferring the recognition of taxable income. At December 31, 2000 and 1999, the Company was holding $496,259 and $383,804, respectively, of such proceeds which are not considered assets of the Company and are, therefore, excluded from the accompanying consolidated balance sheets. Statement of Cash Flows ---------------------- For purposes of the statement of cash flows, invested cash is considered a cash equivalent. Invested cash includes all highly liquid investments with a maturity of three months or less when purchased. Fair Values of Financial Instruments ----------------------------------- The carrying amounts reported in the balance sheet for cash and invested cash, short-term investments, premiums receivable, preferred stock and certain other assets approximate those assets' fair values. Fair values for investment securities are based on quoted market prices. The carrying amount reported in the balance sheet for notes payable approximates fair value since the interest rate on the notes payable is variable. The Company has no other material financial instruments. Stock Based Compensation ----------------------- The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and accordingly, recognizes no compensation expense for the stock option grants. 2. CHANGE IN ACCOUNTING FOR GOODWILL During the fourth quarter of 2000, the Company elected to change its method for assessing the recoverability of goodwill (not associated with impaired assets) from one based on undiscounted cash flows to one based on discounted cash flows. The Company believes that using the discounted cash flow approach to assess the recoverability of goodwill is a preferable policy because it is consistent with the methodology used by the Company to evaluate investment decisions and provides a more current and realistic valuation than the undiscounted approach. The discount rate used in determining discounted cash flows was a rate corresponding to the Company's cost of capital. F-10 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 --- (In thousands of dollars except per common share amounts) 2. CHANGE IN ACCOUNTING FOR GOODWILL (Continued) The Company's new accounting policy for assessing the recoverability of goodwill is as follows: The Company evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. Estimated cash flows are determined by disaggregating the Company's business to an operational and organizational level for which meaningful identifiable cash flows can be determined. When estimated future discounted cash flows are less than the carrying amount of the net assets (tangible and identifiable intangible) and related goodwill, impairment losses of goodwill are charged to operations. Impairment losses, limited to the carrying amount of goodwill, represent the sum of the carrying amount of the net assets (tangible and identifiable intangible) and goodwill in excess of the discounted cash flows of the business being evaluated. In determining the estimated future cash flows, the Company considers current and projected future levels of income as well as business trends, prospects and market and economic conditions. Prior to the fourth quarter of 2000, the assessment of recoverability and measurement of impairment of goodwill was based on undiscounted cash flows. This change represents a change in accounting principle, which is indistinguishable from a change in estimate. As a result of the change to a discounted cash flow methodology, the Company recorded a non-cash write-down of goodwill of $172,451 net of deferred taxes of $62,082 or $8.24 per common share after taxes in the fourth quarter of 2000. 3. INVESTMENTS The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2000, and 1999 were as follows: F-11 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 --- (In thousands of dollars except per common share amounts) 3. INVESTMENTS (Continued) 2000 --- Gross Gross Estimated Amortized

Unrealized Unrealized Fair Cost Gains Losses Value ---- ----- ------ ----- U.S. Treasury securities and obligations of U.S. Government corporations and agencies $ 68,730 $ 2,563 $ 352 $ 70,941 Obligations of states and political subdivisions 272,946 5,257 1,518 276,685 Fixed maturities issued by foreign governments 1,878 28 5 1,901 Public utilities 93,100 722 4,690 89,132 Corporate securities 216,699 2,962 3,947 215,714 Mortgage backed securities 89,053 1,322 1,357 89,018 Preferred stock 58,098 585 5,232 53,451 --------- --------- --------- ---------- Fixed maturities available-for-sale $ 800,504 $ 13,439 $ 17,101 $ 796,842 ========= ========= ========= ========== F-12 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES --- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 3. INVESTMENTS (Continued) 1999 --- Gross Gross Estimated Amortized Unrealized Unrealized Fair Cost Gains Losses Value ---- ----- ------ ----- U.S. Treasury securities and obligations of U.S. Government corporations and agencies $ 96,220 $ 402 $ 3,250 $ 93,372 Obligations of states and political subdivisions 227,704 460 8,451 219,713 Fixed maturities issued by foreign governments 5,136 511 693 4,954 Public utilities 95,506 2,932 9,141 89,297 Corporate securities 207,174 1,723 9,196 199,701 Mortgage backed securities 74,469 189 3,527 71,131 Preferred stock 58,539 3,638 5,261 56,916 --------- --------- ---------- ---------- Fixed maturities available-for-sale $ 764,748 $ 9,855 $ 39,519 $ 735,084 ========= ========= ========== ========== The amortized cost and estimated fair value of fixed-maturity securities at December 31, 2000 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations. F-13 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES --- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 3. INVESTMENTS (Continued) Estimated Amortized Fair Cost Value ---- ----- Due in one year or less $ 22,855 $ 22,914 Due after one year through five years 231,390 232,722 Due after five years through ten years 188,219 190,305 Due after ten years 268,988 261,883 Mortgage backed securities 89,052 89,018 ------------- ------------- $ 800,504 $ 796,842 ============= ============= Earnings on investments and net realized (losses) gains for the three years ended December 31, follow: 2000 1999 1998 ---- ---- ---- Fixed maturities $ 48,618 $ 45,507 $ 41,519 Equity securities 12 25 21 Invested cash and other short-term investments 4,006 5,334 6,252 Mortgage loans 79 356 477 Net realized (losses) gains (271) (1,579) 2,817 --------- --------- --------- Total investment income 52,444 49,643 51,086 Investment expenses (1,309) (1,644) (1,750) --------- --------- --------- Net investment income $ 51,135 $ 47,999 $ 49,336 ========= ========= ========= Realized and unrealized (losses) gains representing the change in difference between fair value and cost (principally amortized cost for fixed maturities) on fixed maturities and equity securities for the three years ended December 31, are summarized below: F-14 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES --- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 3. INVESTMENTS (Continued) Change in Realized Unrealized ---------- ---------- 2000 Fixed maturities $ (271) $ 26,002 Equity securities - 421 ---------- ---------- $ (271) $ 26,423 ========== ========== 1999 Fixed maturities $ (1,497) $ (47,912) Equity securities (82) (2,249) ---------- ---------- $ (1,579) $ (50,161) ========== ========== 1998 Fixed maturities $ 2,817 $ 7,431 Equity securities - 1 ---------- ---------- $ 2,817 $ 7,432 ========== ========== Gross unrealized gains and (losses) relating to investments in equity securities were $1,096 and $(2,146) at December 31, 2000. Proceeds from sales of investments in fixed maturities, net of calls or maturities during 2000, 1999 and 1998 were $195,385, $522,212 and $76,054, respectively. Gross gains of $1,908, $2,646 and $2,865 in 2000, 1999 and 1998, respectively, and gross losses of $2,039, $4,321 and $48 in 2000, 1999 and 1998, respectively, were realized on those sales. Proceeds from sales of investments in equity securities during 2000, 1999 and 1998 were $0, $285 and $0, respectively. There were no gross gains in 2000, 1999 or 1998 and gross losses of $0, $82 and $0 in 2000, 1999 and 1998, respectively, were realized on those sales. F-15 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES --- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 4. POLICY AND CONTRACT CLAIMS Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows: 2000 1999 1998 ---- ---- ---- Balance at January 1 $ 554,450 $ 521,894 $ 202,477 Acquired reserves from acquisition of subsidiaries - - 276,112 Incurred related to: Current year 73,313 105,163 114,833 Prior years 3,576 (8,149) (21,270) ------------ ------------ ------------ Total incurred 76,889 97,014 93,563 ------------ ------------ ------------ Paid related to: Current year 8,980 8,959 4,155 Prior years 65,561 55,499 46,103 ------------ ------------ ------------ Total Paid 74,541 64,458 50,258 ------------ ------------ ------------ Balance at December 31 $ 556,798 $ 554,450 $ 521,894 ============ ============ ============ The favorable development on prior year loss reserves during 1999 and 1998 was attributable to lower than expected payment levels on recent issue years which included a high proportion of refinance business. 5. REINSURANCE The Company cedes and assumes title policy risks to and from other insurance companies in order to limit and diversify its risk. The Company cedes insurance on risks in excess of certain underwriting limits which provides for recovery of a portion of losses. The Company remains contingently liable to the extent that reinsuring companies cannot meet their obligations under reinsurance agreements. The Company has not paid or recovered any reinsured losses during the three years ended December 31, 2000. The total amount of premiums for assumed and ceded risks was less than 1.2% of title premiums in each of the last three years. F-16 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 6. SHAREHOLDERS' EQUITY Rights Agreement ---------------- The Company has issued one preferred share purchase right (a "Right") for each outstanding share of Common Stock. Each Right entitles the holder to purchase, upon certain triggering events, shares of the Company's Series A Junior Participating Preferred Stock ("Junior Preferred Stock") or Common Stock or other securities, as set forth in the Rights Agreement, as amended, between the Company and State Street Bank and Trust Company, the parent company of the Company's transfer agent. Generally, the Rights will become exercisable if a person or group acquires or announces a tender offer for 20% or more of the outstanding shares of Common Stock. Under certain circumstances, the Board of Directors may reduce this threshold percentage to not less than 10%. If a person or group acquires the threshold percentage of Common Stock described above, each Right will entitle the holder, other than such acquiring person or group, to purchase one one-hundredth of a share of Junior Preferred Stock at an exercise price of $85, subject to certain adjustments. The Junior Preferred Stock has dividend, liquidation and voting rights that are intended to equate the value of one one-hundredth interest in a share of Junior Preferred Stock with the value of one share of Common Stock. As an alternative to purchasing shares of Junior Preferred Stock, if a person or group acquires the threshold percentage of Common Stock, each Right will entitle the holder, other than such acquiring person or group, to buy, at the then current exercise price of the Right, shares of Common Stock having a total market value of twice the exercise price. In addition, the Company's Board of Directors may exchange each Right for one share of Common Stock. If the Company is acquired in a merger or other business combination, each Right will entitle the holder, other than such acquiring person or group, to purchase, at the then current exercise price of the Right, securities of the surviving company having a total market value equal to twice the exercise price of the Rights. The Rights will expire on August 20, 2007, and may be redeemed by the Company at a price of one cent per Right at any time before they become exercisable. Until the Rights become exercisable, they are evidenced by the Common Stock certificates and are transferred with and only with such certificates. Stock Options ------------ The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided under FASB Statement No. 123, Accounting for Stock-Based Compensation ("Statement 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. F-17 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 6. SHAREHOLDERS' EQUITY (Continued) Under the Company's 1991 Stock Incentive Plan, as amended (the "1991 Plan"), officers, directors and key employees of the Company and its subsidiaries were eligible to receive grants and/or awards of Common Stock, restricted stock, phantom stock, incentive stock options, non-qualified stock options and stock appreciation rights. The 1991 Plan expired as to new grants or awards October 31, 2000; however, grants and awards made prior to expiration of the 1991 Plan remain subject to the 1991 Plan and the applicable provisions of the grant or award. As of October 31, 2000, the Company had made grants or awards covering 1,509,480 shares of Common Stock under the 1991 Plan. Pursuant to the 1992 Stock Option Plan for Non-Employee Directors (the "Directors' Plan"), each non-employee director is granted an option to purchase 1,500 shares of Common Stock on the first business day following the annual meeting of shareholders. Up to 60,000 shares of Common Stock were available for issuance under the Directors' Plan, and as of May 21, 1997, the Company had granted options covering all 60,000 shares. Stock option grants to non-employee directors from 1998 to 2000 were made under the 1991 Plan. Beginning on June 17, 1998, annual stock option grants to non-employee directors who were not affiliated with Reliance Insurance Company were increased from 1,500 to 2,000 shares of Common Stock. The Company has adopted the 2000 Stock Incentive Plan, as amended (the "2000 Plan"), which provides for grants and/or awards of Common Stock, restricted stock, stock options, stock appreciation rights and phantom stock to officers, directors, employees, agents, consultants and advisors of the Company and its subsidiaries, as determined in the discretion of the Compensation Committee of the Board of Directors. The maximum number of shares of Common Stock authorized for issuance under the 2000 Plan is 3,000,000, subject to adjustment as described in the 2000 Plan. All options which have been granted under the 1991 Plan, the 2000 Plan and the Directors' Plan are non-qualified stock options with an exercise price equal to the fair market value of a share of Common Stock on the date of grant. Options granted in 1992 under the Incentive Plan and all options granted under the Directors' Plan expire ten years from the date of grant. All other options which have been granted under the 1991 Plan and 2000 Plan expire seven years from the date of grant. Options generally vest ratably over a four-year period. At December 31, 2000, there were options to purchase 2,877,028 shares available for future grant under the 2000 Plan. Pro forma information regarding net income and earnings per share is required by Statement 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2000: risk-free interest rate of 6.77%, dividend yield of 1.03%, volatility factor of the expected market price of the Company's Common Stock of .535 and a weighted-average expected life of the options of approximately 5 years. F-18 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 6. SHAREHOLDERS' EQUITY (Continued) The Black-Scholes option valuation method was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows: 2000 1999 1998 ---- ---- ---- Pro forma net (loss) income $ (82,215) $ 53,244 $ 92,258 Pro forma net (loss) income available to common shareholders (89,915) 45,544 85,756 Pro forma net (loss) income per common share (6.71) 3.13 6.07 Pro forma net (loss) income per common share assuming dilution (Note 9) (6.71) 2.73 5.01 A summary of the Company's stock option activity and related information for the years ended December 31 follows: Weighted Weighted Number Average Average of Shares Exercise Price Fair Value --------- ------------- ---------- Options outstanding, December 31, 1997 (452,534 exercisable) 749,384 $ 15 Granted 88,000 45 $ 15.51 Exercised 146,408 13 Forfeited 9,789 26 Options outstanding, December 31, 1998 (458,762 exercisable) 681,187 $ 19 Granted 199,000 43 $ 25.27 Exercised 99,069 11 Forfeited 18,000 44 Options outstanding, December 31, 1999 (474,368 exercisable) 763,118 $ 25 Granted 403,000 19 $ 24.26 Exercised 113,618 15 Forfeited 10,500 19 Options outstanding, December 31, 2000 (489,000 exercisable) 1,042,000 F-19 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 6. SHAREHOLDERS' EQUITY (Continued) The following table summarizes information about stock options outstanding at December 31, 2000: Weighted Weighted Weighted Range of Number Average Average Number Average Exercise Outstanding Remaining Exercise Exercisable Exercise Prices at 12/31/00 Life Price at 12/31/00 Price ------- ---------- ---- ----- ---------- ----- $ 7 - $ 19 335,900 2.51 $15 295,900 $14 19 - 20

354,600 6.38 20 16,600 20 22 - 44 166,500 3.74 30 118,250 29 44 - 44 169,000 5.13 44 42,250 44 54 - 54 16,000 7.46 54 16,000 54 ----------- ---------- $ 7 - $ 54 1,042,000 4.52 $24 489,000 $22 =========== ========== Savings and Stock Ownership Plan -------------------------------- The Company has registered 3,000,000 shares of Common Stock for use in connection with the LandAmerica Financial Group, Inc. Savings and Stock Ownership Plan. Substantially all of the employees of the Company are eligible to participate in the Plan. The Plan Trustee purchases shares on the open market to use in matching employee contributions. The level of contributions to the Plan is discretionary and set by the Board of Directors annually. The number of shares purchased and allocated to employees in 2000, 1999 and 1998 were 238,993, 313,167 and 168,909, respectively, at a cost of $7,220, $7,579 and $8,598, respectively. Series B Preferred Stock ------------------------ On February 27, 1998, the Company issued 2,200,000 shares of its 7% Series B Cumulative Convertible Preferred Stock (the "Series B Preferred Stock") to Reliance Insurance Company ("RIC") in connection with the acquisition of Commonwealth Land Title Insurance Company and Transnation Title Insurance Company (the "Acquisition"). The terms of the Series B Preferred Stock provide for the payment of quarterly cumulative cash dividends at an annual rate of 7% of the stated value of $50.00 per share, or $3.50 per share. At December 31, 2000, 1999 and 1998, there were no Series B Preferred Stock dividends in arrears. The Series B Preferred Stock is redeemable by the Company at any time on or after February 27, 2003 at a redemption price equal to the stated value of $50.00 per share, plus a redemption premium of 4% commencing on February 27, 2003 that declines by 1% per year over the next five years until February 27, 2007, at which time the Series B Preferred Stock may be redeemed at its stated value of $50.00 per share. The terms of the F-20 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES --- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 6. SHAREHOLDERS' EQUITY (Continued) Series B Preferred Stock contain no sinking fund provisions and places no limits on the source of funds to be used for any redemption of the Series B Preferred Stock. The Series B Preferred Stock generally is convertible at the option of the holder into shares of Common Stock at a conversion price of $22.80 per share of Common Stock (equivalent to a conversion ratio of approximately 2.193 shares of Common Stock for each share of Series B Preferred Stock or 4,824,561 shares of Common Stock in the aggregate), subject to adjustment as described in the terms of the Series B Preferred Stock. The Series B Preferred Stock is not convertible into shares of Common Stock by RIC and its affiliates until such time as RIC and its affiliates have sold, conveyed or transferred all of the 4,039,473 shares of Common Stock received by RIC from the Company in connection with the Acquisition. However, RIC and its affiliates shall not be subject to such restriction in the event, among other things, that (i) the Company calls for the redemption of the Series B Preferred Stock held by RIC or (ii) either the Company declares a regular quarterly dividend on the Common Stock of $.40 or more during any calendar year, or the Company declares one or more non-regular dividends on the Common Stock in an aggregate amount of $.50 or more during any calendar year, or the Company declares dividends on the Common Stock, whether regular or non-regular, in an aggregate amount of $1.60 or more during any calendar year. If the Company calls for redemption less than all of the Series B Preferred Stock held by RIC and its affiliates, then RIC and its affiliates are entitled to convert into shares of Common Stock only that number of the Series B Preferred Stock that have been so called for redemption. In the event of any voluntary or involuntary dissolution, liquidation, or winding up of the Company, the holders of shares of Series B Preferred Stock are entitled to be paid, out of the assets of the Company available for distribution to its shareholders, before any payment is made in respect of the Common Stock or any other class of stock of the Company ranking junior to the Series B Preferred Stock, a liquidation preference equal to $50.00 per share plus accrued and unpaid dividends to the date of such payment. If, upon such dissolution, liquidation or winding up, the amounts payable as the liquidation preference to holders of Series B Preferred Stock and any other shares of stock ranking as to such distribution on a parity with the Series B Preferred Stock cannot be paid in full, the holders of Series B Preferred Stock and of such other shares will share ratably in any such distribution of assets in proportion to the liquidation preference that each holder is entitled to receive. The holders of Series B Preferred Stock are not entitled to vote at any meeting of the Company's shareholders, except as required by the Virginia Stock Corporation Act or as set forth in the terms of the Series B Preferred Stock. The terms of the Series B Preferred Stock permit the holders of shares of Series B Preferred Stock to vote for the election of two additional directors of the Company at an annual or special meeting of shareholders whenever dividends on the Series B Preferred Stock are in arrears for six or more quarterly periods, whether or not consecutive. The holders of Series B Preferred Stock are entitled to one vote per share on matters subject to a vote by such holders. F-21 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 6. SHAREHOLDERS' EQUITY (Continued) Subsequent Event Relating to Series B Preferred Stock -- In February and March 2001, RIC sold 4,039,473 shares of Common Stock acquired in connection with the Acquisition and an additional 4,460,561 shares of Common Stock acquired upon conversion of 2,034,017 shares of the Series B Preferred Stock. The sales were made in connection with an underwritten public offering. Following the sale of the shares, RIC owns 1 share of Common Stock and 165,983 shares of Series B Preferred Stock, which are convertible to 363,997 shares of Common Stock at any time in accordance with the terms of the Series B Preferred Stock. Comprehensive Income -------------------- The Company has elected to display comprehensive income in the statements of shareholders' equity, net of reclassification adjustments. Reclassification adjustments are made to avoid double counting in comprehensive income items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods. A summary of unrealized (losses) gains and reclassification adjustments, net of tax, of available-for-sale securities for the years ended December 31, 2000, 1999 and 1998 follows: 2000 1999 1998 ---- ---- ---- Unrealized holding (losses) gains arising during the period $ 26,750 $ (26,838) $ 6,237 Reclassification adjustment for (losses) gains previously included in other comprehensive income (net of tax (benefit) expense of $(706) - 2000; $3,020 - 1999 and $2,601 - 1998) (1,369) 5,144 1,406 Adjustment for valuation allowance for deferred tax 1,696 11,520 - ----------- ----------- ----------- Net unrealized holding gains (losses) arising during the period $ 26,423 $ (43,502) $ 4,831 =========== =========== =========== 7. STATUTORY FINANCIAL CONDITION AND RESULTS OF OPERATIONS The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States which differ in some respects from statutory accounting practices prescribed or permitted in the preparation of financial statements for submission to insurance regulatory authorities. Combined statutory equity of the Company's insurance subsidiaries was $358,562 and $377,273 at F-22 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 7. STATUTORY FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued) December 31, 2000 and 1999, respectively. The difference between statutory equity and equity determined on the basis of accounting principles generally accepted in the United States is primarily due to differences between the provision for policy and contract claims included in the accompanying financial statements and the statutory unearned premium reserve, which is calculated in accordance with statutory requirements, and statutory regulations that preclude the recognition of certain assets including goodwill and deferred income tax assets. Combined statutory net income of the Company's primary insurance subsidiaries was $17,558, $65,480 and $104,160 for the years ended December 31, 2000, 1999 and 1998, respectively. In a number of states, the Company's insurance subsidiaries are subject to regulations which require minimum amounts of statutory equity and which require that the payment of any extraordinary dividends receive prior approval of the Insurance Commissioners of these states. An extraordinary dividend is generally defined by various statutes in the state of domicile of the subsidiary insurer. Under such statutory regulations, net assets of consolidated subsidiaries aggregating $22,854 is available for dividends, loans or advances to the Company during the year 2001. In addition, the credit agreement with Bank of America (see Note 12) contains certain covenants which would limit future dividend payments by the Company. Management does not believe, however, that these restrictions will, in the foreseeable future, adversely affect the Company's ability to pay cash dividends at the current dividend rate. In 1998, the NAIC adopted codified statutory accounting principles ("Codification"). Codification has changed, to some extent, prescribed statutory accounting practices, and resulted in changes to the accounting practices that the Company's insurance subsidiaries use to prepare their statutory financial statements. Codification requires adoption by various states before it becomes the prescribed statutory basis of accounting for insurance companies domesticated within those states. Certain states have adopted Codification effective January 1, 2001. Management does not expect Codification to have a material impact on combined statutory equity of its insurance subsidiaries. 8. INCOME TAXES The Company files a consolidated federal income tax return with its subsidiaries. Significant components of the Company's deferred tax assets and liabilities at December 31, 2000 and 1999 are as follows: F-23 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

-- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 8. INCOME TAXES (Continued) 2000 1999 ---- ---- Deferred tax assets: Policy and contract claims $ 72,956 $ 77,455 Pension liability 7,214 7,269 Employee benefit plans 18,356 13,021 Unrealized losses 1,696 11,520 Other intangible assets 48,804 - Other 4,624 3,629 ----------- ----------- Total deferred tax assets 153,650 112,894 Valuation allowance for deferred tax assets (1,696) (11,520) ----------- ----------- Net deferred tax assets 151,954 101,374 ----------- ----------- Deferred tax liabilities: Title plant basis differences 7,374 7,152 Other intangible assets - 5,633 Capitalized system development costs 5,574 6,320 Other - 1,289 ----------- ----------- Total deferred tax liabilities 12,948 20,394 ----------- ----------- Net deferred tax asset $ 139,006 $ 80,980 =========== =========== A valuation allowance will be established for any portion of a deferred tax asset that management believes may not be realized. At December 31, 2000 and 1999, the Company recorded a valuation allowance of $1,696 and $11,520, respectively, related to the deferred tax assets created by the unrealized losses associated with the Company's investment portfolio. The provision for income tax differs from the amount of income tax determined by applying the U.S. statutory income tax rate (35%) to pre-tax income as a result of the following: 2000 1999 1998 ---- ---- ---- Tax (benefit) expense at federal statutory rate $ (44,848) $ 29,705 $ 51,206 Non-taxable interest (3,651) (3,302) (1,743) Dividend deductions (863) (883) (856) Company-owned life insurance (1,176) (612) 290 Meals and entertainment 3,200 2,200 2,121 State income taxes, net of federal benefit (1,615) 655 1,275 Other, net 1,582 2,790 981 --------- --------- -------- Income tax expense $ (47,371) $ 30,553 $ 53,274 ========= ========= ======== Taxes paid were $10,400 in 2000, $30,574 in 1999 and $48,902 in 1998. F-24 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 9. EARNINGS PER SHARE The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31: 2000 1999 1998 ---- ---- ---- Numerator: Net (loss) income - numerator for diluted earnings per share $ (80,766) $ 54,317 $ 93,028 Less preferred dividends (7,700) (7,700) (6,502) ---------- --------- -------- Numerator for basic earnings per share $ (88,466) $ 46,617 $ 86,526 ========== ========= ======== Denominator: Weighted average shares - denominator for basic earnings per share 13,397 14,532 14,120 Effect of dilutive securities: Assumed weighted average conversion of preferred stock - 4,825 4,020 Employee stock options - 146 281 ---------- --------- -------- Denominator for diluted earnings per share 13,397 19,503 18,421 Basic earnings per common share $(6.60) $3.21 $6.13 ====== ===== ===== Diluted earnings per common share $(6.60) $2.79 $5.05 ====== ===== ===== In accordance with accounting principles generally accepted in the United States, the effect of dilutive securities was excluded from the calculation of the diluted loss per common share for the year ended December 31, 2000, as such inclusion would result in antidilution. 10. PENSIONS AND OTHER POSTRETIREMENT BENEFITS Prior to May 31, 2000, the Company sponsored two postretirement benefit plans that provide postretirement health care and life insurance benefits to employees hired by the Company before January 1, 2000. Effective June 1, 2000, the two benefit plans were combined. This change did not affect the plan participants or their coverage. During 1998 the Company had two noncontributory defined benefit retirement plans. Effective January 1, 1999, the plans were merged and amended to change the pension benefit formula to a cash balance formula from the existing benefit calculation based on years of service and average earnings. Under the amended plan, each participant's account is credited annually with an amount equal to 2-5% of the participant's annual compensation based on the participant's age plus years of credited service. Additionally, F-25 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 10. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (Continued) each participant's account balance will be credited with interest based on the 10-year treasury bond rate published in November preceding the applicable plan year. Those participants in the plans on December 31, 1998, who meet the requirements for early retirement on that date, may elect to receive their retirement benefit under the applicable prior plan or formula. Pension Benefits Other Benefits --------------- ------------- 2000 1999 2000 1999 ---- ---- ---- ---- Change in benefit obligation: Benefit obligation at beginning of year $ 204,061 $ 233,534 $ 40,561 $ 42,220 Service cost 7,277 7,183 1,131 1,564 Interest cost 14,576 14,062 3,194 2,749 Plan participants' contributions - - 453 438 Plan amendments - (16,217) 3,347 - Actuarial loss (gains) 1,045 (21,564) (62) (3,949) Benefits paid (20,414) (12,937)

(3,043) (2,461) --------- --------- -------- --------- Benefit obligation at end of year 206,545 204,061 45,581 40,561 --------- --------- -------- --------- Change in plan assets: Fair value of plan assets at beginning of year 198,797 183,604 1,842 2,020 Actual return on plan assets 33,525 22,361 181 88 Company contributions 5,316 5,769 2,327 1,757 Plan participants' contributions - - 453 438 Benefits paid (20,414) (12,937) (3,043) (2,461) --------- --------- -------- --------- Fair value of plan assets at end of year 217,224 198,797 1,760 1,842 --------- --------- -------- --------- Funded status of the plan (underfunded) 10,679 (5,264) (43,821) (38,719) Unrecognized net actuarial gains (17,263) (1,556) (2,355) (2,207) Unrecognized transition (asset) obligation (10) (31) 14,083 15,256 Unrecognized prior service cost (12,507) (14,349) 3,068 - Contribution made between measurement date and year end 1,299 879 - - --------- --------- --------- --------- Accrued benefit cost $ (17,802) $ (20,321) $ (29,025) $ (25,670) ========= ========= ========= ========= Pension Benefits Other Benefits ---------------- ------------- 2000 1999 2000 1999 ---- ---- ---- ---- Weighted average assumptions as of December 31 Discount rate 7.75% 7.50% 7.75% 7.50% Expected return on plan assets 9.00% 9.00% 6.00% 6.00% Rate of compensation increase 4.63% 4.00% 4.63% 4.00% F-26 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 10. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (Continued) Pension Benefits Other Benefits ---------------- ------------- 2000 1999 1998 2000 1999 1998 ---- ---- ---- ---- ---- ---- Components of net periodic pension cost: Service cost $ 7,277 $ 7,183 $ 7,603 $ 1,131 $ 1,564 $ 1,042 Interest cost 14,576 14,062 13,675 3,194 2,749 2,508 Expected return on plan assets (16,773) (15,875) (14,798) (96) (121) (135) Amortization of unrecognized transition obligation or (asset) (21) (21) (21) 1,174 1,174 1,174 Prior service cost recognized (1,842) (1,842) 73 279 - - Recognized (gains) losses - 595 61 - - (256) ------- ------- ------- ------- ------- ------- Net periodic benefit cost $ 3,217 $ 4,102 $ 6,593 $ 5,682 $ 5,366 $ 4,333 ======= ======= ======= ======= ======= ======= The assumed health care cost trend rate used to measure the expected cost of covered health care benefits for the Company's plan was 8.0% for 2000, 7.5% for 2001 and is assumed to decrease 0.5% per year until 2007 and remain level at 5.5% thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects: One Percentage One Percentage Point Increase Point Decrease ------------- ------------- Effect on total of service and interest cost components in 2000 $ 142 $ (143) Effect on postretirement benefit obligation as of 2000 $ 1,400 $ (1,449) 11. LEASE COMMITMENTS The Company conducts a major portion of its operations from leased office facilities under operating leases that expire over the next 10 years. Additionally, the Company leases data processing and other equipment under operating leases expiring over the next five years. F-27 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 11. LEASE COMMITMENTS (Continued) Following is a schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2000. 2001 $ 44,578 2002 34,621 2003 26,522 2004 16,056 2005 5,855 Thereafter 1,707 ----------- $ 129,339 =========== Rent expense was $57,571, $53,489 and $53,255 for the years ended December 31, 2000, 1999 and 1998, respectively. In December 2000, the Company entered into a sale-leaseback transaction, totaling $5,996 whereby the Company sold and leased back assets classified as furniture and equipment. These assets were leased back from the purchaser over periods of 5 and 7 years. The resulting lease is being accounted for as operating lease and the resulting gain of $212 is being amortized over the life of the lease. The lease requires the Company to pay customary operating and repair expenses and to observe certain covenants. This lease contains a renewal option at lease termination and a purchase option at an amount approximating fair market value at lease termination. In December 1999, the Company entered into three sale-leaseback transactions, totaling $24,932 whereby the Company sold and leased back assets classified as furniture and equipment. These assets were leased back from the purchasers over periods of 7 and 8 years. The $895 is being amortized over the life of the lease. The leases require the Company to pay customary operating and repair expenses and to observe certain covenants. The leases contain renewal options at lease termination and purchase options at amounts approximating fair market value at lease termination. F-28 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

-- (In thousands of dollars except per common share amounts) 11. LEASE COMMITMENTS (Continued) Future scheduled minimum lease payments under the non-cancelable operating leases as of December 31, 2000 are as follows: 2001 $ 4,770 2002 4,770 2003 4,770 2004 4,770 2005 4,770 Thereafter 7,671 ---------- Total minimum lease payments $ 31,521 ========== 12. CREDIT ARRANGEMENTS On November 7, 1997, the Company entered into a credit agreement with Bank of America, individually and as administrative agent for a syndicate of eleven other banks, pursuant to which a credit facility, in an aggregate principal amount of up to $237,500, was established. The credit facility is a four-year senior unsecured revolving credit facility which will terminate with all outstanding amounts being due and payable November 7, 2003, unless extended as provided in the credit agreement. At December 31, 2000, the amount due under the credit agreement was $195,500. Interest accrues on the outstanding principal balance of the loans, at the Company's option, based upon (i) IBOR (reserve adjusted) for thirty, sixty, ninety or one hundred and eighty days plus a margin determined by the Company's debt to capitalization ratio, or (ii) Bank of America's Base Rate as defined in the credit agreement. In the event of any default, interest on the outstanding principal balance of the loans will accrue at a rate equal to Bank of America's Base Rate plus two percent (2.0%) per annum. Interest paid was $13,255, $11,955 and $10,285, in 2000, 1999 and 1998, respectively. 13. PENDING LEGAL PROCEEDINGS General ------- The Company and its subsidiaries are involved in certain litigation arising in the ordinary course of their businesses, some of which involve claims of substantial amounts. Although the ultimate outcome of these matters cannot be ascertained at this time, and the results of legal proceedings cannot be predicted with certainty, the Company believes, based on current knowledge, that the resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations. F-29 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES --- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 13. PENDING LEGAL PROCEEDINGS (Continued) Litigation Not in the Ordinary Course of Business --- The People of the State of California, the Controller of the State of California and the Insurance Commissioner of the State of California have filed a putative defendant class action suit in the Sacramento Superior Court against Fidelity National Title Insurance Company and others (Case No. 99AS02793). While the subsidiaries of the Company that do business in California (the "Company's California Subsidiaries") were not named in the suit, they fall within the putative defendant class definition which includes virtually all title insurance underwriters, underwritten title companies, controlled escrow companies and independent escrow companies in California. The suit alleges that the defendants (i) failed to escheat unclaimed property to the Controller of the State of California on a timely basis, (ii) charged California home buyers and other escrow customers fees for services which were never performed, or which cost less than the amount charged, and (iii) devised and carried out schemes with financial institutions to receive interest, or monies in lieu of interest, on escrow funds deposited by defendants with financial institutions in demand deposits. The suit seeks injunctive relief, restitution and civil penalties. The Company's California Subsidiaries are cooperating with the Controller's Office in the conduct of unclaimed property audits, and with the Department of Insurance in a limited examination with respect to banking relationships. Additionally, the Company's California Subsidiaries have entered into an agreement with the Attorney General that would allow claims against them to be dismissed without prejudice, in order to facilitate continuing settlement discussions with the Attorney General and other state representatives without facing court-imposed deadlines. The Company has engaged in preliminary settlement discussions with the Attorney General. Although the complete terms of a settlement agreement have not been reached, the Company believes that, based on the status of discussions to date, the final terms of any settlement agreement that is materially consistent with such discussions would not have a material adverse effect on the Company's financial condition. On or about June 16, 2000, Norman E. Taylor, Connie S. Taylor, Lynne Thompson Jones-Brittle, Colin R. Callaghan and Miriam J. Callaghan (collectively, the "Plaintiffs") filed a putative class action suit (the "Taylor Suit") in the Superior Court of Los Angeles, California (Case No. BC 231917) against the Company, Commonwealth Land Title Insurance Company, Commonwealth Land Title Company, Lawyers Title Insurance Corporation and Lawyers Title Company (collectively, the "Defendants"). The Plaintiffs purport to represent a class defined in the First Amended Complaint dated November 20, 2000 (the "Amended Complaint") as "all persons or entities who, from 1980 to the present, incident to purchase, sale or refinancing of real property located in California, deposited funds in escrow accounts controlled by the Defendants and were not paid interest on their funds and/or were charged fees for services not rendered by Defendants or excessive fees for the services Defendants performed." F-30 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 13. PENDING LEGAL PROCEEDINGS (Continued) The Plaintiffs allege in the Amended Complaint that the Defendants unlawfully (a) received interest, other credits or payments that served as the functional equivalent of interest, on customer escrow funds; (b) charged and retained fees for preparing and recording reconveyances that they did not prepare or record, and charged and retained excessive fees for other escrow-related services; and (c) swept or converted funds in escrow accounts based upon contrived charges prior to the time the funds escheated or should have escheated to the State of California pursuant to the Unclaimed Property Law. The Plaintiffs assert claims for relief against the Defendants based on (i) violation of California's Unfair Business Practices Act, California Business and Professions Code ss.ss. 17200, et. seq.; (ii) violation of California's Deceptive, False and Misleading Advertising Act, California Business and Professions Code ss.ss. 17500, et. seq.; (iii) violation of California's Consumer Legal Remedies Act, California Civil Code ss.ss. 1750, et. seq.; (iv) breach of fiduciary duty; (v) breach of agents' duties to their principals; (vi) breach of undertaking of special duty; (vii) conversion; (viii) unjust enrichment; (ix) conspiracy; and (x) negligence. The Plaintiffs seek injunctive relief, restitution of improperly collected charges and interest and the imposition of an equitable constructive trust over such amounts, damages according to proof, punitive damages, costs and expenses, attorneys' fees, pre- and post-judgment interest and such other and further relief as the Court may deem necessary and proper. The Company intends to vigorously defend the Taylor Suit. The suit is still in its initial stages, and at this time no estimate of the amount or range of loss that could result from an unfavorable outcome can be made. 14. ACQUISITIONS On February 27, 1998, the Company acquired all of the issued and outstanding shares of capital stock of Commonwealth Land Title Insurance Company and Transnation Title Insurance Company ("Commonwealth and Transnation") from Reliance Insurance Company, a subsidiary of Reliance Group Holdings, Inc. (the "Acquisition"). The shares were acquired in exchange for 4,039,473 shares of the Company's common stock (book value, net of offering costs - $130,728); 2,200,000 shares of the Company's 7% Series B Cumulative Convertible Preferred Stock, which are the equivalent of 4,824,561 shares of common stock (book value - $175,700); the net proceeds of an offering of 1,750,000 shares of common stock ($65,921); and cash financed with bank debt ($200,681). The Acquisition has been accounted for by the Company using the "purchase" method of accounting. The assets and liabilities of Commonwealth and Transnation have been substantially revalued to their respective fair market values. The financial statements of the Company reflect the combined operations of the Company and Commonwealth and Transnation from the closing date of the Acquisition. F-31 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES -- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 14. ACQUISITIONS (Continued) Pursuant to EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity, the Company has recorded exit and termination costs of approximately $11,500 related to exit and termination costs incurred in connection with the acquisition of Commonwealth and Transnation. Costs incurred to exit certain leases and to dispose of certain title plants comprised $9,400 of this amount. The remaining $2,100 primarily relates to the termination of employees for which employee severance benefits have been accrued. Exit and termination costs of Commonwealth and Transnation leases and employees necessary to assimilate the operations of Commonwealth and Transnation with the Company have been capitalized as part of the purchase price. All exit and termination costs have been paid as of December 31, 2000. The following unaudited pro forma results of operations of the Company give effect to the acquisition of Commonwealth and Transnation as though the transaction had occurred on January 1, 1998. These operating results exclude the effect of exit and termination costs. Year Ended December 31, 1998 ---- Gross revenues $ 1,993,583 Operating revenues 1,938,666 Investment income 54,917 Expenses 1,057,933 Net income 105,720 Less preferred dividends (7,700) ------------ Net income available to common shareholders $ 98,020 Net income per common share $6.48 Net income per common share assuming dilution $5.22 Weighted average number of common shares 15,128 Weighted average number of common shares assuming dilution 20,234 On October 31, 2000, the Company acquired all of the outstanding shares of Primis, Inc. (Primis). Primis is a web based provider of property information and appraisal services. The acquisition has been accounted for by the Company using the "purchase" method of F-32 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES --

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 14. ACQUISITIONS (Continued) accounting. The assets and liabilities of Primis will be revalued to their respective fair market values. The cost of acquisition was not material in relation to the Company's financial position. On August 1, 2000, the Company entered into a joint venture agreement with The First American Corporation contributing certain assets of its wholly-owned subsidiary, Datatrace, creating Data Trace Information Services ("Data Trace"). The financial statements of the Company reflect Data Trace as an investment in affiliates, included in Other Assets on the balance sheet. Pursuant to EITF 94-3, the Company has recorded exit and termination costs of $3,079 associated with these transactions. Costs incurred relate to exiting certain leases and license and maintenance agreements and to the termination of employees for which employee severance benefits have been accrued. 15. UNAUDITED QUARTERLY FINANCIAL DATA Selected quarterly financial information follows: First Second Third Fourth Quarter Quarter Quarter Quarter ------- ------- ------- ------- 2000 ---- Premiums, title search, escrow and other $ 393,779 $ 454,203 $ 439,633 $ 463,653 Net investment income 12,860 12,377 12,763 13,136 Income (loss) before income taxes (3,108) 26,875 11,867 (163,770) Net income (loss) (2,051) 17,736 7,832 (104,283) Net income (loss)per common share $(0.30) $1.18 $0.44 $(7.88) Net income (loss) per common share - assuming dilution $(0.30) $0.97 $0.43 $(7.88) 1999 ---- Premiums, title search, escrow and other $ 478,161 $ 532,384 $ 501,813 $ 487,656 Net investment income 11,742 11,761 11,985 12,511 Income before income taxes 23,585 27,170 14,149 19,966 Net income 14,870 17,131 9,213 13,103 Net income per common share $0.85 $1.01 $0.51 $0.81 Net income per common share - assuming dilution $0.73 $0.86 $0.48 $0.70 F-33 LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES --- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 -- (In thousands of dollars except per common share amounts) 15. UNAUDITED QUARTERLY FINANCIAL DATA (Continued) In the fourth quarter of 2000, the Company changed its method of assessing the recoverability of Goodwill which resulted in a net charge to earnings of $110,369 (See Note 2). F-34 Schedule I LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES SUMMARY OF INVESTMENTS DECEMBER 31, 2000 (In thousands of dollars) Column A Column B Column C Column D -------- -------- -------- -------- Amount at which shown in Fair the balance Type of investment Cost Value sheet ---- ----- ----- Fixed maturities: Available-for-sale: Bonds: United States Government and government agencies and authorities $ 68,730 $ 70,941 $ 70,941 States, municipalities and political subdivisions 272,946 276,685 276,685 Foreign Government 1,878 1,901 1,901 Public Utilities 93,100 89,132 89,132 All other corporate bonds 216,699 215,714 215,714 Mortgage-backed securities 89,053 89,018 89,018 Preferred stock 58,098 53,451 53,451 ------------- ------------- ------------- Total fixed maturities $ 800,504 $ 796,842 $ 796,842 ============= ============= ============= Equity securities: Common stocks: Industrial, miscellaneous and all $ 4,285 $ 3,235 $ 3,235 ------------- ------------- ------------- other Total equity securities $ 4,285 $ 3,235 $ 3,235 ============= ============= ============= Mortgage loans on real estate $ 9,652 XXX $ 9,652 ============= === ============= Deposits with banks: Invested cash $ 80,976 XXX $ 80,976 ============= === ============= Total investments $ 895,417 XXX $ 890,705 ============= === ============= F-35 Schedule II LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES CONDENSED FINANCIAL INFORMATION OF REGISTRANT PARENT COMPANY BALANCE SHEETS DECEMBER 31, 2000 AND 1999 (In thousands of dollars) 2000 1999 ---- ---- ASSETS Cash $ 10,299 $ 29,102 Stock of subsidiaries at equity 865,591 896,973 Notes receivable from affiliates 775 775 Notes receivable other 3,379 4,604 Income tax recoverable 6,213 1,154 Due from affiliates 39,828 11,338 Other assets 16,608 15,539 ----------- ----------- Total assets $ 942,693 $ 959,485 =========== =========== LIABILITIES Note payable $ 195,500 $ 207,500 Other liabilities 83,093 21,282 ----------- ----------- Total liabilities 278,593 228,782 SHAREHOLDERS' EQUITY Preferred stock, no par value, authorized 5,000,000 shares, no shares of Series A Junior Participating Preferred Stock issued or outstanding; 2,200,000 shares of 7% Series B Cumulative Convertible Preferred Stock issued and outstanding in 2000 and 1999 175,700 175,700 Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2000 - 13,518,319; 1999 - 13,680,421 340,269 342,138 Accumulated other comprehensive income (4,712) (31,135) Retained earnings 152,843 244,000 ----------- ----------- Total shareholders' equity 664,100 730,703 ----------- ----------- $ 942,693 $ 959,485 =========== =========== F-36 Schedule II LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES CONDENSED FINANCIAL INFORMATION OF REGISTRANT PARENT COMPANY STATEMENTS OF OPERATIONS YEARS ENDED

DECEMBER 31, 2000, 1999 AND 1998 (In thousands of dollars) 2000 1999 1998 ---- ---- ---- REVENUES Dividends received from consolidated subsidiaries $ 62,602 $ 55,300 $ 43,239 Management fee from consolidated subsidiaries 10,156 5,125 1,111 Other income 7,996 3,001 1,678 ---------- ---------- ---------- 80,754 63,426 46,028 EXPENSES Interest expense 13,477 12,155 10,593 Administrative expenses 19,064 5,951 8,311 ---------- ---------- ---------- 32,541 18,106 18,904 INCOME BEFORE EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES 48,213 45,320 27,124 FEDERAL INCOME TAX BENEFIT (5,627) (3,492) (5,694) EQUITY IN UNDISTRIBUTED INCOME OF CONSOLIDATED SUBSIDIARIES (134,606) 5,505 60,210 ---------- ---------- ---------- NET INCOME $ (80,766) $ 54,317 $ 93,028 =========== ========== ========== F-37 Schedule II LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES CONDENSED FINANCIAL INFORMATION OF REGISTRANT PARENT COMPANY STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 (In thousands of dollars) 2000 1999 1998 ---- ---- ---- Cash flows from operating activities: Net (loss) income $ (80,766) $ 54,317 $ 93,028 Undistributed net loss (income) of subsidiaries 134,606 (5,505) (60,210) Receivables from subsidiaries (28,490) (15,102) 3,530 Income taxes (5,059) - (8,229) Accounts payable - - 1,635 Other 8,906 9,556 4,455 ---------- ---------- --------- Net cash provided by operating activities 29,197 43,266 34,209 ---------- ---------- --------- Cash flows from investing activities: Additional investment in subsidiaries (35,740) - (273,034) ---------- ---------- ---------- Net cash used in investing activities (35,740) - (273,034) ---------- ---------- ---------- Cash flows from financing activities: Common shares (retired) issued (1,869) (40,690) 81,833 Proceeds from note payable - - 203,500 Dividends paid (10,391) (10,611) (9,536) ---------- ---------- --------- Net cash (used in) provided by financing activities (12,260) (51,301) 275,797 ---------- ---------- --------- Net (decrease) increase in cash (18,803) (8,035) 36,972 Cash at beginning of year 29,102 37,137 165 ---------- ---------- --------- Cash at end of year $ 10,299 $ 29,102 $ 37,137 ========== ========== ========= F-38 Schedule II LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES CONDENSED FINANCIAL INFORMATION OF REGISTRANT NOTES TO PARENT COMPANY FINANCIAL STATEMENTS NOTE 1 - ACCOUNTING POLICIES Basis of presentation - The accompanying parent company financial statements should be read in conjunction with the Company's Consolidated Financial Statements. F-39 ITEM 14(a)(3) INDEX TO EXHIBITS Exhibit Number and Applicable Section of Item 601 of Regulation S-K Document ------------- -------- 3.1 Articles of Incorporation, incorporated by reference to Exhibit 3A of the Registrant's Form 10 Registration Statement, as amended, File No. 0-19408. 3.2 Articles of Amendment of the Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-A Registration Statement, filed February 27, 1998, File No. 1-13990. 3.3 Bylaws, incorporated by reference to Exhibit 3B of the Registrant's Form 10 Registration Statement, as amended, File No. 0-19408. 4.1 Amended and Restated Rights Agreement, dated as of August 20, 1997, between the Registrant and Wachovia Bank, N.A., as Rights Agent, which Amended and Restated Rights Agreement includes an amended Form of Rights Certificate, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, dated August 20, 1997, File No. 1-13990. 4.2 First Amendment to Amended and Restated Rights Agreement, dated as of December 11, 1997, between the Registrant and Wachovia Bank, N.A., as Rights Agent, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, dated December 11, 1997, File No. 1-13990. 4.3 Second Amendment to Amended and Restated Rights Agreement, dated as of June 1, 1999, between the Registrant, Wachovia Bank, N.A., as Rights Agent, and State Street Bank and Trust Company, as Successor Rights Agent, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, dated June 1, 1999, File No. 1-13990. 4.4 Third Amendment to Amended and Restated Rights Agreement, dated as of July 26, 2000, between the Registrant and State Street Bank and Trust Company, as Rights Agent, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, dated July 26, 2000, File No. 1-13990. 4.5 Form of Common Stock Certificate, incorporated by reference to Exhibit 4.6 of the Registrant's Form 8-A Registration Statement, filed February 27, 1998, File No. 1-13990. 4.6 Form of 7% Series B Cumulative Convertible Preferred Stock certificate, incorporated by reference to Exhibit 4.7 of the Registrant's Form 8-A Registration Statement, filed February 27, 1998, File No. 1-13990. 10.1 Lawyers Title Insurance Corporation Deferred Income Plan, incorporated by reference to Exhibit 10C of the Registrant's Form 10 Registration Statement, as amended, File No. 0-19408. ITEM 14(a)(3) INDEX TO EXHIBITS Exhibit Number and Applicable Section of Item 601 of Regulation S-K Document ------------- -------- 10.2 Lawyers Title Insurance Corporation Benefit Replacement Plan, incorporated by reference to Exhibit 10M of the Registrant's Form 10 Registration Statement, as amended, File No. 0-19408. 10.3 Lawyers Title Insurance Corporation Supplemental Pension Plan, incorporated by reference to Exhibit

10B of the Registrant's Form 10 Registration Statement, as amended, File No. 0-19408. 10.4 Lawyers Title Corporation 1992 Stock Option Plan for Non-Employee Directors, as amended May 21, 1996, incorporated by reference to Exhibit 10.5 of the Registrant's Form 10-Q for the quarter ended June 30, 1996, File No. 1-13990. 10.5 Lawyers Title Insurance Corporation Senior Executive Severance Agreement, incorporated by reference to Exhibit 10G of the Registrant's Form 10 Registration Statement, as amended, File No. 0-19408. 10.6 Lawyers Title Corporation Change of Control Employment Agreement, incorporated by reference to Exhibit 10.12 of the Registrant's Form 10-K for the year ended December 31, 1994, File No. 0-19408. 10.7 Lawyers Title Insurance Corporation Change of Control Employment Agreement, incorporated by reference to Exhibit 10.13 of the Registrant's Form 10-K for the year ended December 31, 1994, File No. 0-19408. 10.8 Form of Lawyers Title Corporation Non-Qualified Stock Option Agreement, dated October 29, 1991, with Schedule of Optionees and amounts of options granted, incorporated by reference to Exhibit 10.17 of the Registrant's Form 10-K for the year ended December 31, 1991, File No. 0-19408. 10.9 Form of Lawyers Title Corporation Employee Non-Qualified Stock Option Agreement, dated January 8, 1992, with Schedule of Optionees and amounts of options granted, incorporated by reference to Exhibit 10.18 of the Registrant's Form 10-K for the year ended December 31, 1991, File No. 0-19408. 10.10 Form of Lawyers Title Corporation Employee Non-Qualified Stock Option Agreement, dated January 4, 1993, with Schedule of Optionees and amounts of options granted, incorporated by reference to Exhibit 10.21 of the Registrant's Form 10-K for the year ended December 31, 1992, File No. 0-19408. 10.11 Form of Lawyers Title Corporation Non-Employee Director Non-Qualified Stock Option Agreement, incorporated by reference to Exhibit 10.18 of the Registrant's Form 10-K for the year ended December 31, 1994, File No. 0-19408. 10.12 Form of Lawyers Title Corporation Employee Non-Qualified Stock Option Agreement, dated January 4, 1994, with schedule of optionees and amounts of options granted, incorporated by reference to Exhibit 10.27 of the Registrant's Form 10-K for the year ended December 31, 1993, File No. 0-19408. 10.13 Form of Lawyers Title Corporation Employee Non-Qualified Stock Option Agreement, dated January 5, 1995, with schedule of optionees and amounts of options granted, incorporated by reference to Exhibit 10.22 of the Registrant's Form 10-K for the year ended December 31, 1994, File No. 0-19408. 10.14 LandAmerica Financial Group, Inc. Benefit Restoration Plan, as amended and restated effective July 1, 1999, incorporated by reference to Exhibit 10.14 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. 10.15 Lawyers Title Corporation Outside Directors Deferral Plan, incorporated by reference to Exhibit 10.24 of the Registrant's Form 10-K for the year ended December 31, 1994, File No. 0-19408. 10.16 Form of Lawyers Title Insurance Corporation Split-Dollar Life Insurance Agreement and Collateral Assignment, incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-K for the year ended December 31, 1994, File No. 0-19408. 10.17 Form of Lawyers Title Corporation Employee Non-Qualified Stock Option Agreement, dated January 3, 1996, with Schedule of Optionees and amounts of options granted, incorporated by reference to Exhibit 10.26 of the Registrant's Form 10-K for the year ended December 31, 1995, File No. 1-13990. 10.18 Form of Lawyers Title Corporation Employee Non-Qualified Stock Option Agreement, dated January 7, 1997, with Schedule of Optionees and amounts of options granted, incorporated by reference to Exhibit 10.23 of the Registrant's Form 10-K for the year ended December 31, 1996, File No. 1-13990. 10.19 Form of LandAmerica Financial Group, Inc. Employee Non-Qualified Stock Option Agreement, dated March 5, 1998, with Schedule of Optionees and amounts of options granted, incorporated by reference to Exhibit 10.24 of the Registrant's Form 10-K for the year ended December 31, 1997, File No. 1-13990. 10.20 Form of LandAmerica Financial Group, Inc. 1998 Restricted Stock Agreement, with Schedule of Grantees and number of shares granted, incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-K for the year ended December 31, 1997, File No. 1-13990. ITEM 14(a)(3) INDEX TO EXHIBITS Exhibit Number and Applicable Section of Item 601 of Regulation S-K Document -------------- -------- 10.21 Registration Rights Agreement, dated February 27, 1998, by and among the Registrant and Reliance Insurance Company, incorporated by reference to Exhibit 10.27 of the Registrant's Form 10-K for the year ended December 31, 1997, File No. 1-13990. 10.22 Revolving Credit Agreement, dated November 7, 1997, between the Registrant and Bank of America National Trust and Savings Association, individually and as Administrative Agent for a syndicate of 11 other financial institutions, incorporated by reference to Exhibit 99 of the Registrant's Current Report on Form 8-K, dated November 7, 1997, File No. 1-13990. 10.23 Agreement Containing Consent Order, dated February 6, 1998, by and between the Registrant and the Federal Trade Commission, incorporated by reference to Exhibit 10.29 of the Registrant's Form 10-K for the year ended December 31, 1997, File No. 1-13990. 10.24 Employment Agreement, dated March 1, 1998, between the Registrant and Charles H. Foster, Jr., incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-Q for the quarter ended June 30, 1998, File No. 1-13990. 10.25 Form of LandAmerica Financial Group, Inc. Employee Non-Qualified Stock Option Agreement, dated February 16, 1999, with Schedule of Optionees and Options Awarded, incorporated by reference to Exhibit 10.29 of the Registrant's Form 10-K for the year ended December 31, 1998, File No. 1-13990. 10.26 LandAmerica Financial Group, Inc. Outside Directors Deferral Plan, as amended and restated December 1, 1998 and February 17, 1999, incorporated by reference to Exhibit 10.30 of the Registrant's Form 10-K for the year ended December 31, 1998, File No. 1-13990. 10.27 LandAmerica Financial Group, Inc. Executive Voluntary Deferral Plan, as amended and restated December 30, 1998, incorporated by reference to Exhibit 10.31 of the Registrant's Form 10-K for the year ended December 31, 1998, File No. 1-13990. 10.28 Form of LandAmerica Financial Group, Inc. Change of Control Employment Agreement, with Schedule of Officers and Multiplier, incorporated by reference to Exhibit 10.32 of the Registrant's Form 10-K for the year ended December 31, 1998, File No. 1-13990. 10.29 LandAmerica Financial Group, Inc. 1991 Stock Incentive Plan, as amended May 16, 1995, May 21, 1996, November 1, 1996, June 16, 1998, May 18, 1999 and February 23, 2000, incorporated by reference to Exhibit 10.30 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. ITEM 14(a)(3) INDEX TO EXHIBITS Exhibit Number and Applicable Section of Item 601 of Regulation S-K Document ------------- -------- 10.30 LandAmerica Financial Group, Inc. 2000 Stock Incentive Plan, as amended February 21, 2001.* 10.31 Non-Qualified Stock Option Agreement, dated January 31, 2000, between the Registrant and Theodore L. Chandler, Jr., incorporated by reference to Exhibit 10.31 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. 10.32 Restricted Stock Agreement, dated January 31, 2000, between the Registrant and Theodore L. Chandler, Jr., incorporated by reference to Exhibit 10.32 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. 10.33 Employment Agreement, dated January 31, 2000, between the Registrant and Theodore L. Chandler, Jr., incorporated by reference to Exhibit 10.33 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. 10.34 Change of Control Employment Agreement, dated January 31, 2000, between the Registrant and Theodore L. Chandler, Jr., incorporated by reference to Exhibit 10.34 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. 10.35 Form of LandAmerica Financial Group, Inc. Employee Non-Qualified Stock Option Agreement, dated February 23, 2000, with Schedule of Optionees and Options Awarded, incorporated by reference to Exhibit 10.35 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. 10.36 Form of LandAmerica Financial Group, Inc. Employee Non-Qualified Stock Option Agreement, dated May 17, 2000, with Schedule of Optionees and Options Awarded, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for the quarter ended June 30, 2000, File No. 1-13990. 10.37 Employee Non-Qualified Stock Option Agreement, dated May 17, 2000, between the Registrant and Charles H. Foster, Jr., incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q for the quarter ended June 30, 2000, File No. 1-13990. 10.38 Form of LandAmerica Financial Group, Inc. Amendment to Non-Qualified Stock Option Agreements, dated June 20, 2000, with Schedule of Optionees and Agreements Being Amended, incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-Q for the quarter ended June 30, 2000, File No. 1-13990. 10.39 Form of LandAmerica Financial Group, Inc. Non-Employee Director Non-Qualified Stock Option Agreement, incorporated by reference to Exhibit 10.4 of the Registrant's Form 10-Q for the quarter ended June 30, 2000, File No. 1-13990. ITEM 14(a)(3) INDEX TO EXHIBITS Exhibit Number and Applicable Section of Item 601 of Regulation S-K Document ------------- -------- 10.40 First Amendment of Credit Agreement, dated February 19, 1998, by and among the Registrant, Bank of America National Trust and Savings Association and the financial institutions named therein, incorporated by reference to Exhibit 10.36 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. 10.41 Second Amendment to Credit Agreement, dated December 22, 1999, by and among the Registrant, Bank of America, N.A. and the financial institutions named therein, incorporated by reference to Exhibit 10.37 of the Registrant's Form 10-K for the year ended December 31, 1999, File No. 1-13990. 10.42 Third Amendment to Credit Agreement, dated December 31, 2000, by and among the Registrant, Bank of America, N.A. and the financial institutions named therein.* 10.43 Form of LandAmerica Financial Group, Inc. Employee Non-Qualified Stock Option Agreement, dated February 20, 2001, with Schedule of Optionees and Options Awarded.* 10.44 Supplemental Executive Retirement Plan Agreement, dated May 4, 1994, between Commonwealth Land/TransAmerica Title Insurance Co. and Jeffrey C. Selby.* 11 Statement re: Computation of Earnings Per Share.* 21 Subsidiaries of the Registrant.* 23 Consent of Ernst & Young LLP.* * Filed Herewith